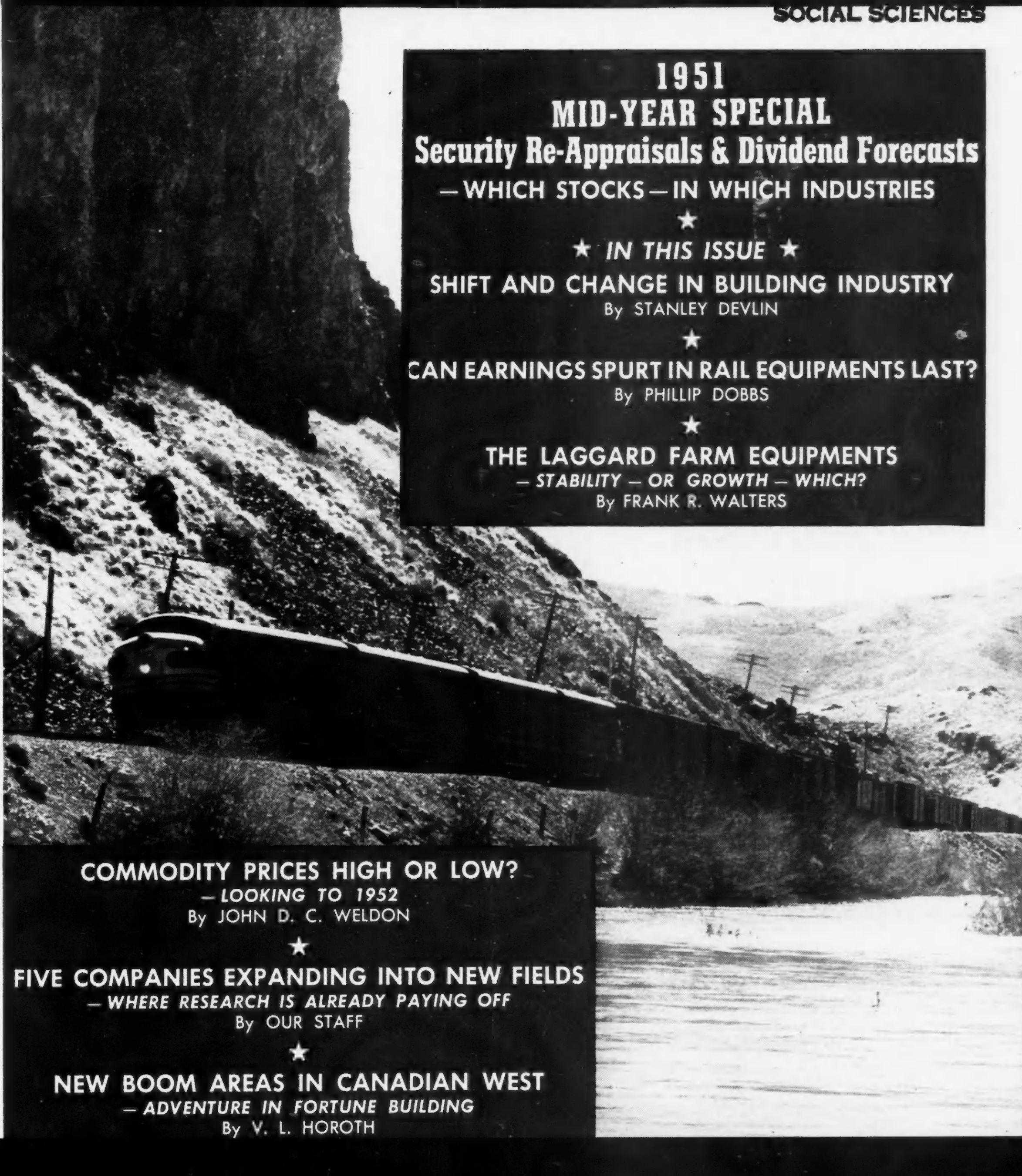
The MAGAZINE of WALL STREET

and BUSINESS ANALYST

AUGUST 11, 1951 75 CENTS



1951
MID-YEAR SPECIAL
Security Re-Appraisals & Dividend Forecasts
—WHICH STOCKS—IN WHICH INDUSTRIES

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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 88, No. 10 — August 11, 1951

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TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

West Coast REPRESENTATIVE, J. G. Davenport Associates, 2412 W. Seventh Street, Los Angeles 5, Calif.

EUROPEAN REPRESENTATIVES – International News Co., Ltd., Breams Bldg., London, B. C. 4 England.

Cable Address – Tickerpub

THE MAGAZINE OF WALL STREET

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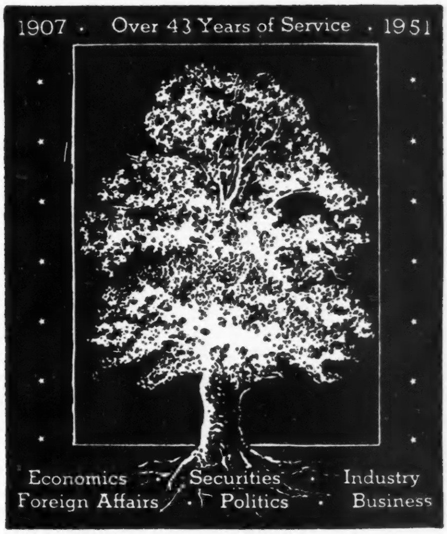


The Trend of Events

ECONOMIC CONTROLS . . . The Defense Production Bill as finally enacted may be better than no control bill at all but it is far from an ideal bill. It is partly economic and partly political, and in large measure the result of group pressures. Understandably, it has fallen considerably short of giving the President all he wanted; the tightening of control powers which he requested was hardly justified. On the other hand, one may also observe that probably few people can understand all that is in the bill and no one at the moment can fully envisage the probable effects thereof. The President has criticized the bill sharply and signed it reluctantly. Time alone will answer the question whether it will prove adequate under the present emergency.

In this connection, perhaps the most cheering aspect of the situation is that if the bill does not do what its proponents hoped or at least said it would do, the President can always come back with a request for amendment. If the evils which economic control laws are intended to avert are not in fact averted, if the pressure of defense production results in run-away prices, if the sinister race between prices and wages continues, if fixed income receivers feel even more the pinch of a steadily depreciating dollar, there will be a chance for remedial action on Capitol Hill. For the time being, no amount of argument or criticism will be as enlightening or impressive as the course of prices during the coming months.

However, if Congress has not distinguished itself in the handling of the Defense Production Act, the President certainly has done not much better in stating his attitude towards it. His bitter criticism of the bill has left some doubt in the minds of many whether he intends to use effectively the anti-inflationary powers contained in the revised Act. The bill of course deserved criticism. Certainly Congress did a most questionable thing—yielding to heavy group pressure—in forcing the Federal Reserve Board to relax its consumer credit controls, in giving in so much to the demands of the farm bloc, in attaching possibly crippling curbs on the establishment of price ceilings.

But there was, nevertheless, no need to roundly denounce the measure, to predict it will boost prices and to issue forthwith what amounts to an open invitation to labor to press for another round of wage increases. That's what the President did in effect when he said "we cannot ask the working people of this country to reduce their standard of living just to pay the higher profits this Act provides for business." He did not say that these profits were unreasonable; nevertheless such a statement comes close to pitting one class against another, and that is hardly the thing to do in the present emergency.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

If we are to assume that this is a serious emergency, and the Administration certainly does everything to create that impression and boost arms spending to the utmost, then we must also accept the position that all must make sacrifices. We cannot have profits as usual for corporations, or living standards as usual for workers, or politics as usual

for politicians. Thus if the President is playing politics in apparently favoring the workers over the business people, he is definitely out of order.

As it is, the people who have opposed additional Government controls (mostly business) have been by far the most helpful to the Government. They have spent huge sums on expansion, they have greatly expanded production, they have assisted the Government in getting mobilization going, and they have spent a great deal of time and money in trying to adjust our entire economy to the needs of the country. Yet they are being continuously attacked by the Administration both for the political effect and because the Administration resents the reluctance of business to give the Government too much power.

Yet such reluctance is extremely well founded. Business knows that these powers are frequently delegated to irresponsible and inexperienced bureaucrats. It has seen New Dealers and Fair Dealers in position of great power who seemed more interested in furthering socialism in this country than in preserving our private enterprise system. And many are not too sure whether the emergency is not being exploited with the idea of progressing further towards the socialistic goal. Many, too, feel that the Administration views the inflation threat with undue alarm—unless of course it intends to do little about it and plans to shove through a new program of greater spending for an even bigger arms build-up. Evidence is multiplying that this may be so. A straw in the wind is the President's statement in his Mid-Year Economic Report that strategic and military studies are under way to decide whether "to raise our sights." In the light of latest developments, it seems that the main question left is merely: How big an increase, and how fast?

In the circumstances, the way in which the Administration will use its anti-inflationary powers, becomes a matter of extreme importance, both economically and politically. There is no question that the weaknesses in the revised control bill have a deep significance: A pronounced distrust in too much centralized power under the present regime and a natural preference of many Americans for taking the risks of getting ahead and doing a job without too much direction. Admittedly that latter entails some risk, paricularly if the Administration decides to fight this attitude against all odds. Rather than do that, the great need is to take fullest advantage of all available control powers and especially of the indirect controls not yet fully employed.

BRITISH DIVIDEND FREEZE . . . When the British Chancellor of the Exchequer, Mr. Hugh Gaitskell, recently announced that he would ask for a three-year freeze on British home company dividends, the British investing public showed its natural reaction to this drastic and essentially insincere move by dumping securities on a wholesale scale. It is not surprising that British investors would become disheartened by the proposed freeze.

Under the projected controls, planned for three dividend years ahead, a limit is imposed on the gross amount of dividends which may be paid, other than fixed-rate dividends. The norm used is the average amount of dividends paid for the two years preceding July 27, 1951. This means not only that payments would be limited but that in the cases where companies had increased their dividends in the preceding year, a roll-back would be required. For example, a company which paid 30% two years ago and raised the rate to 40% last year, would have to lower the next payment to 35%, in order to meet the two-year average requirement.

One should not be astonished, then, that the day following the announcement of the plan, the value of British home securities fell by many tens of millions of pounds. Limitation of dividends not only unfairly deprives stockholders of an opportunity to secure an increased income when conditions are improving for their companies but what is of even greater national importance, it tends to limit equity financing and thus reduces the scope of companies with regard to expansion and re-modernization, a vital matter to the still comparatively backward British industry. Shareholders show very little enthusiasm when they are subject to government control of dividends and certainly cannot be expected to invest in new enterprises requiring share financing when they are discriminated against.

This leads to the question as to why Mr. Gaitskell, who is an expert and fully understands the strength of the powerful arguments against dividend limitation, nevertheless proposes to proceed with his plan. The move is definitely not an economic one but smacks of the rankest kind of politics. Apparently, the British Chancellor hopes, by throwing the "investor lamb to the labor wolves," to mollify the latter. This is a purely demogogic manoeuvre and caters exclusively to class passions.

There is no doubt that the public in Britain, as a result of the growing crisis caused by the steadily increasing "dollar gap," is faced with a new regime of austerity and the Labor Government thinks it can assuage the growing resentment by taking it out on the stockholders. In his way, it apparently thinks it can retain its hold on the voters and strengthen its position in the coming elections. The fact of the matter, of course, is that the dividend freeze will not have the slightest beneficial effect on the general public who no doubt see through the transparency of the Labor government's finesse. One is tempted to assume, moreover, that if the British Government feels that it must resort to such chicanery, it cannot feel very confident of its chances in the elections that are to take place this autumn.

TOO MUCH INCOME TAX . . . Twenty-one states have now passed proposals for a constitutional amendment which would prohibit the imposition of over 25% in Federal income taxes, except in war-time. The proposals would impose the same limit on inheritance and gift taxes. While such an amendment in the form suggested by the States could probably not become law, the restiveness of the State legislatures with regard to our extremely high income taxes is a reflection of the mood of the entire American public. The fact is that our income tax rates have become virtually unbearable, and the total revenue secured by the Government through this means has become entirely disproportionate. The time has come when a large portion of the sums which the Treasury seeks in additional income taxes must be found by other means.

As I See It!

BY ROBERT GUISE

THE COLD WAR GOES ON

When Premier Mossadegh of Iran told W. Averall Harriman that any modification of the Iranian oil nationalization law would open the door to Soviet penetration of Iran, he obviously played on Anglo-American fears of Russian mastery over that country. He knows that this is one of his best cards to play but he also knows that the Soviet bogey is no mere bluff. The danger of Iran's disintegration under Russian pressure is a matter of far more concern to the West than the fate of the Anglo-Iranian Oil Company.

The West is likewise aware that the Soviets are behind the entire Iranian agitation, however camouflaged by nationalism, just as Communist pressures and communist policies must in large part be held responsible for agitation against the West elsewhere in the Middle East. In fact, from Morocco to Iraq, a state of great tension exists. While this critical condition is concerned primarily with nationalism, it is also a reflection of the bad relations between East and West which the Middle-Eastern nations are exploiting to the hilt. Doubtless the Kremlin, while outwardly pretending disinterest, is doing its utmost to stir up that part of the world and prepare it for its future role as major trouble spot.

"HELPING HIM GET HIS GENIE BACK IN THE JAR"

Dowling in The N. Y. Herald Tribune

Thus the Egyptian quarrel with Britain can be said to be in effect a quarrel with the Occident and not just with Britain alone. The same is true of the clamor in Tunis for the French to get out, of the incessant agitation of the Moroccan independence movement against French rule and establishment of American air bases in that country; of demands in Lybia for the elimination of the great American air base in Tripoli; of hostility towards the West in Jordan whose former king Abdullah, recently assassinated, was one of the most solid allies in the Arab world of Britain and consequently of the Occident. And there is Syrian bitterness over the West's Palestine policy and continued agitation in Iraq, despite satisfaction of new royalty demands, for nationalization of that country's oil resources.

Needless to say, this state of affairs, regardless of immediate origin and motive, plays right into the Kremlin's hands who does its best to keep things boiling. The Arab world has a population of over 50 million and occupies a vital and strategic area. To alienate it from the West, to disrupt western exploitation of the Middle Eastern oil resources and ultimately grab them for themselves is likely a major goal in the Soviet campaign against the free world.

Nothing could bring that goal nearer to fulfillment than an unbending attitude towards Iran, hence American pressure on the British to adopt a more conciliatory viewpoint in the oil squabble. Britain is equally aware of this, if only to keep Iran out of the Soviet clutches, but feels that a deal will be possible only if Iran agrees to allow the British to run certain operations without restrictions and give Britain commensurate profits. Since Iran is reluctant to meet these demands fully, the impasse may well continue and even become politically more dangerous, since any modification would not only incite Soviet pressure but give the Iranian communist (Tudeh) party a chance to exploit popular dissatisfaction. It's not impossible that in such an event, extremists might seize the opportunity for a coup which in turn might readily invite Soviet intervention.

It's a ticklish situation and therefore needs careful handling. The Kremlin is (*Please turn to page* 532)

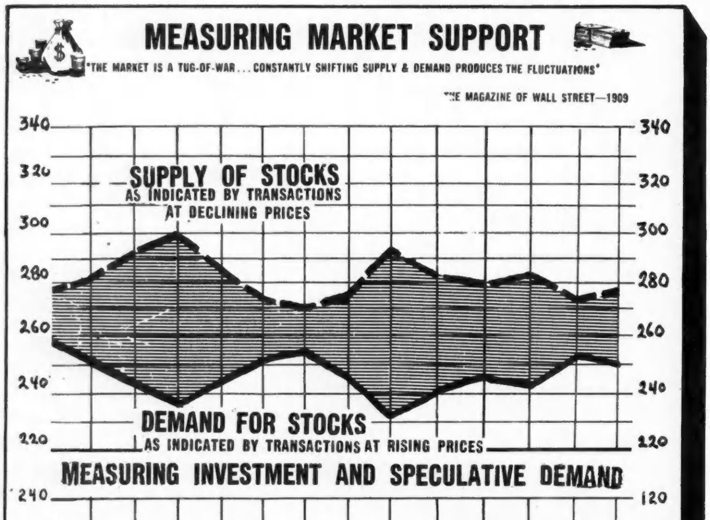
Best Investment Strategy Today

There has been a further selective rise in the market over the last fortnight, taking the Dow industrial average back close to its May high. For it to go much further requires increased participation by secondary stocks. The prospect appears less than dynamic, but as in the past points to a high degree of selectivity which should continue to be the key to investment policy in the near future.

By A. T. MILLER

In brief summary, here is the stock market picture: The Dow-Jones industrial average established a high of 263.13 in early May. The subsequent maximum reaction to date was 20.49 points to the June 29 low. It has been followed by a five-week upswing up to this writing amounting to about 20 points, after a moderate further gain during the last fortnight. Thus, the average has been "flirting with" the old high, which represents a supply level of some significance. It crossed it today by about two points.

The rail average made a high of 90.08 early last February, followed by a zig-zag downswing which took it down by 17.69 points to 72.39 at the June 29 low. At the best level last week, it had recovered about 52% of the February-June decline. As rail moves go, any significant upside test remains a goodly distance away in terms of points and percentage.



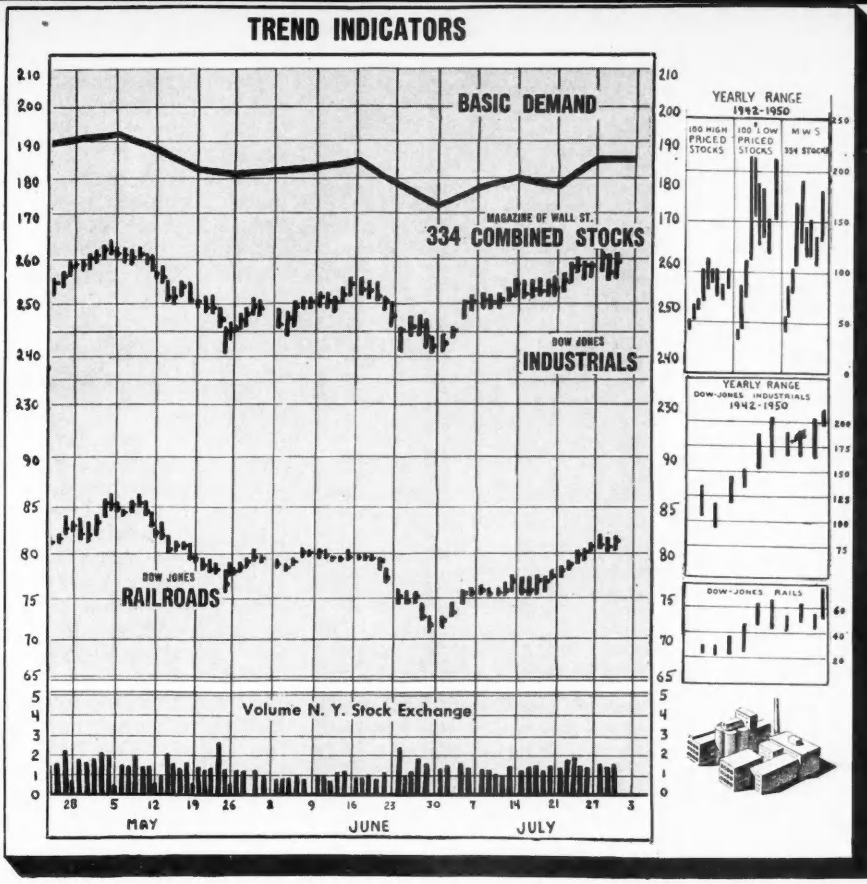
Action of Utilities

The utility average made a major high at 44.26 as far back as May 20, 1950; and its subsequent low is also far back, having been recorded July 26, 1950, at 37.40, on the sharp sell-off of the general market precipitated by the start of the Korean war. For all practicial purposes, the average was stalemated throughout the first half year. However, since the end of June it had a notably persistent, gradual advance, sufficing to carry it up to 45.52, or slightly above the 1950 top, as of August 3. In short, two of the three Dow averages are at "interesting" levels—levels at which another trading-range upswing in the general market will falter, and be followed by more or less reaction; or at which there will be enough revival of speculative confidence to take average stock prices appreciably higher.

If the latter occurs, it should be soon; for if the performance of the last five weeks does not generate a materially broader demand for stocks in August than has been shown so far, the resultant market hesitation itself will make for doubt, caution and a reversion to emphasis on such uncertainties as the tax legislation, civilian business prospects, the pace and duration of the armament program, foreign potentialities, etc. Assuming for the moment that it may occur, it does not follow that the upswing from the June lows would develop either into a major or long-sustained advance. A more likely alternative is merely a fairly moderate broadening, on the upside, of the range of fluctuation of recent months. We continue to think of this as neither a bull nor bear market in the dynamic meaning of those terms; but as a limited-range market something on the order of the

medium-broad swings in the long period from late autumn, 1946, to mid-1949. No one can say whether the range might be 25, 30 or 40 points, in the industrial average, as compared with the 20-point range to date since early May.

Because of abnormalities, uncertainties and new market conditions — with investment playing a much bigger role than speculation —technical indications derived from break-through signals have been unreliable more often than not in the postwar era to date. For example, both the Dow industrial and rail averages gave "bull-market evidence", according to traditional technical interpretation, in June, 1948, at what turned out to be the virtual top of a 28-point trading-range upswing. Again, both averages supplied a bear-market "confirmation" in mid-1949, which quickly proved to have been false.



At the present time the trend "evidence" differs in no decisive respect from that of late April when the industrial average, after a decline of about 12 points from its February high, rose above the latter high. It did so on reduced volume of trading as compared with earlier phases of advance; and it did so mainly because of selective strength in a minority of favored stock groups, with inferior participation by the rails and secondary industrials. At the culmination of that swing on May 3, the industrial average had bettered its February high by 7.42 points or less than 3%.

In the July rise of this key average, a minority of exceptionally popular stock groups—most notably oils, chemicals, drugs and tire stocks—largely "carried the market". Secondary stocks—a broad term applying to semi-speculative and speculative issues which make up a preponderant majority of all listed stocks—mostly remained within their previous 1951 range of fluctuation, as was so on the rise which culminated in early May. If the Dow industrials go through the May top, it can only be conjectural whether the further potentiality is slight or moderate in percentage. We see no basis for thinking that it could be more than moderate at best.

Several general observations may be pertinent. (1) Both investors and traders are less influenced by "break-outs" than in earlier times. The average investor is more sophisticated than formerly; more inclined to buy when prices are down than when they have had a goodly advance; *and more inclined to think in terms of individual stock values, which is certainly the sensible thing to do.* (2) Extreme thinking, in terms of the averages, whether bullish or bearish, has not paid off so far this year, and is unlikely to do so. (3) Because of the seasonal factor, the "trend evidence" provided by a July-August rise is necessarily open to more question than would be a similar spring or autumn performance.

The Chief Sources of Demand

Broadly speaking, the buying required to put the general market level significantly higher must come from four main sources: (1) From managers of institutional and trust funds; (2) from investment-minded individuals; (3) from speculative-minded individuals; and (4) from professional operators. The first source concentrates on high-grade stocks, many of which already have been pushed up to record prices. However, it can "reach down" to a moderate extent into upper-medium-grade secondary issues; and it may well have to do so, since investible funds continue to accumulate and press for employment. The second source resembles the first in its motivation and selective conservatism; and there can be no doubt that these two sources combined provide more support for good stocks than ever before. It will continue to do so, especially on market declines, in the absence of a cyclical slump and sharp reductions in earnings and dividends. Nevertheless, some fund managers and many investors among the general public, are not adverse to taking down some profits when they think the time is right.

The speculative individuals, aside from professionals, have not been a big market factor since 1945 and early 1946, when they were not as big a factor as in 1928-1929. They "came in" to a moderate degree

Performance of Selected Stocks

	Price		Net Change	
	6/29/51	8/3/51	Points	Percent
Northern Pacific	35⅝	48⅝	+13.0	+36.5
Firestone Tire	91½	121½	+30.0	+32.8
Celanese	45½	57	+11½	+25.3
Dow Chemical	93½	117	+23½	+25.1
American Cyanamid	101¾	126¾	+25.0	+24.6
Crucible Steel	32¼	39⅞	+ 7⅝	+23.7
National Lead	77½	95⅝	+18⅛	+23.4
Goodyear Tire	78	94¾	+16¾	+21.5
Merck	85	103	+18.0	+21.2
Dixie Cup	56¼	68	+11¾	+21.0
Allis Chalmers	40¾	49¼	+ 8½	+20.9
Cities Service	98¼	117⅜	+19⅛	+19.5
Wheeling Steel	34½	40¾	+ 6¼	+18.1
Rohm & Haas	130	153	+23.0	+17.7
Bristol-Myers	32⅛	37⅜	+ 5¼	+16.4
Phillips Petroleum	41⅜	48	+ 6⅝	+16.0
American Smelting	74	85	+11.0	+14.9
Monsanto Chemical	89¼	102¼	+13.0	+14.6
Corning Glass	66½	75	+ 8½	+12.8
DOW-JONES RAIL AVERAGE	72.39	81.47	+ 9.08	+12.1
Atchison	73½	80⅞	+ 7⅜	+10.3
General Foods	40¾	44½	+ 3¾	+ 9.2
General Electric	52¾	57½	+ 4¾	+ 9.0
DOW-JONES IND. AVERAGE	242.64	262.98	+20.34	+ 8.4
Procter & Gamble	63¼	67⅞	+ 4⅝	+ 7.3
General Motors	46⅜	48¾	+ 2⅜	+ 5.1
American Tobacco	59⅛	61¾	+ 1¾	+ 4.4
Woolworth	42¼	43½	+ 1¼	+ 3.0
Amer. Tel. & Tel.	153	157⅜	+ 4⅜	+ 2.9
Union Pacific	98¼	101	+ 2¾	+ 2.8
Montgomery Ward	67½	69¼	+ 1¾	+ 2.6
First Nat. Stores	37½	38	+ ½	+ 1.3
Bayuk Cigars	9⅞	9⅞	—	—
Canada Dry	11⅝	11⅝	—	—
Studebaker	26¾	26¾	—	—
Hudson Motor	14	14	—	—
City Products	28¾	28⅜	— ⅜	— 1.3
Safeway Stores	34⅜	33½	— ⅞	— 2.5
Mojud Hosiery	14⅝	14¼	— ⅜	— 2.6
Reliable Stores	25¼	24⅜	— ⅞	— 3.5
Sunshine Biscuit	63¾	60	— 3¾	— 5.5
Roan Antelope	9⅛	5⅝	— ½	— 5.5
Wrigley	75¾	70¼	— 5½	— 7.3
Divco	14¾	13⅝	— 1⅛	— 7.6
Morrell	14⅜	13⅛	— 1⅛	— 7.8

for a relatively short period late last year and early this year. The professional operators try to move with the wind and the "feel" of the market, and are not much concerned with longer-term questions and imponderables. In terms of any broadly representative index of prices, such as our weekly index of 334 issues, the present upside potentiality depends largely on what these two groups do, for the minority of "blue chip" growth stocks and high-grade income stocks certainly cannot carry the market indefinitely, and probably cannot carry it much further. To keep the pot boiling will require more group rotation, involving a substantially better demand than heretofore for secondary stocks.

This, in turn, depends mainly on professional operators; and on "trading-down" tendencies by investment-counsel firms which control or influence a large aggregate of funds, for part of which semi-speculative stocks are acceptable as the bottom of the barrel is scraped in the search for attractive prime issues. In any near-term sense, the speculative public can probably be ruled out as a decisive factor. A five-week rise, even given some betterment of the previous key high by the unrepresentative Dow industrials, is unlikely to excite such people. They mostly get the itch to buy only after an advance has run a long time and has been widely publicized.

One of two alternatives can logically be expected: (1) Most of the stock groups which held the spotlight in the July rise will slow down or react in some degree, making for a general sell-off of some proportions without much delay; or (2) other groups of more speculative types will take, or share, the spotlight, and carry average stock prices somewhat higher. This is the typical sequence in a rising market, eventually bringing the cats and dogs to life if the advance runs long enough.

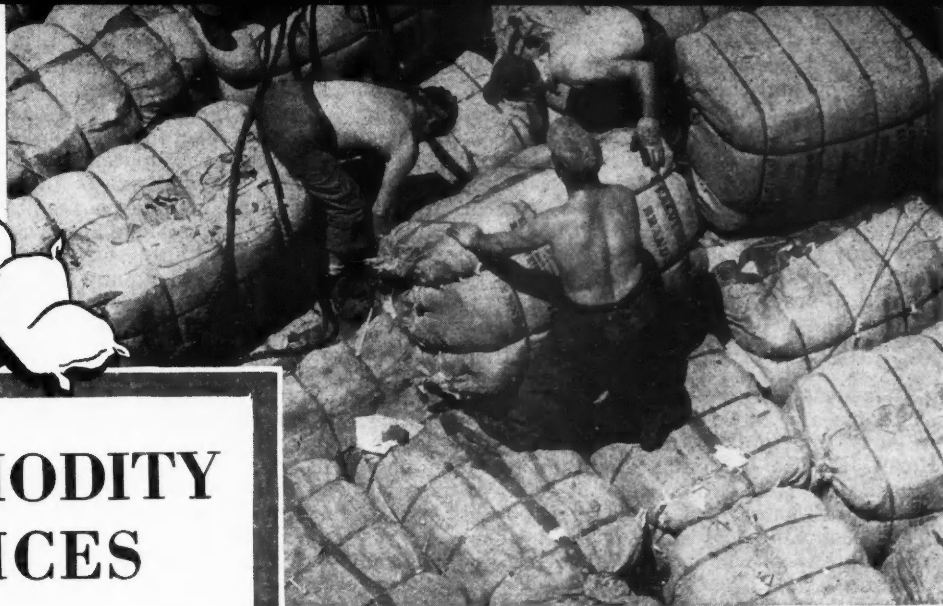
Which it is to be, is impossible to say with any assurance, on the basis of the performance of late July and early August. It is true, and might prove significant, that within the last week, an appreciably better demand has been evident in the case of a fair number of secondary stock groups. They include steels, some building materials issues, some metals, some farm equipment issues, some office equipment stocks—in general, capital-goods issues mostly of medium-speculative grade. However, this partial shift in selectivity is by no means emphatic so far; and one might easily take too much for granted in a hopeful evaluation of it on a mere one-week basis. Should it continue in nearby days, the chances for at least a moderately higher market level being reached on this price swing would thereby be improved.

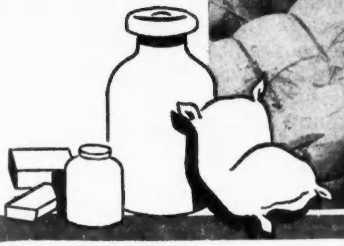
At any rate, the investor—as in recent weeks—must look to continuation of a high degree of selectivity, for what we have had, and are having, is essentially a market for stocks. As previously stated, the investor for best results must think in terms of individual stock values rather than in terms of averages.

No dynamic change, for better or worse, in the economic-financial fundamentals is presently foreseeable; and can apparently be ruled out at least for the rest of 1951, if not also for early 1952, barring global war. The latter seems increasingly improbable, despite constant harping on the threat by the Administration and the military planners. Consider the following facts: (1) the Kremlin played a cautiously calculated short-of-war game before the Korean war, and backed down where it was firmly opposed and where further pressure carried risk of war. (2) The Administration virtually invited the communist venture in Korea, and made it seem riskless to the Russians, by its previous negative and vascillating Asiatic policy. (3) The Administration which plans to push defense and foreign military aid spending to a $65-billion annual rate by mid-1952, and still higher in the 1952-1953 fiscal year, is the same Administration that figured pre-Korean-war defense outlays of around $15 billion a year as ample.

Although there is undeniable reality in the "defense emergency," it is nevertheless being used for propaganda in behalf of profligate spending, higher taxes, and a controlled economy to the extent that Congress will permit. As usual, no arms program is big enough to satisfy the armed services. Their present reaction to mild deflationary adjustments in the civilian economy during the last five months or so is that this proves that the economy can stand a larger defense outlay than they had figured earlier. Hence they, and especially the air force, are pressing for an upward revision.

It need hardly be said that more inflation can be created in due course, though not during the rest of 1951, regardless of any control law that the President could con- (*Please turn to page* 532)





COMMODITY PRICES

High or Low?

—LOOKING TO 1952

By JOHN D. C. WELDON

The distintegration of the commodity price structure, under way since last February and now assuming the proportions of a major movement, has attracted much less attention in the business community than similar declines in the past. Lulled into a sense of false security by the oft-repeated Washington prediction of an inflationary bulge some months ahead, with the timing postponed as the months pass and prices go down rather than up, the majority of business men accept the thesis that this is only a temporary interlude.

This assumption falls in the category of "pleasant" beliefs. Business men—whether in industry, commerce, or finance—may decry inflation but they all like its effects. The assumption that the commodity price downtrend of recent months has anything of a permanent character is "unpleasant" since it carries rude connotations. The spectre of inflation never has kept business men awake nights but the spectre of deflation has.

Nevertheless, the time has come to ask ourselves frankly and honestly—with unbiased evaluation of the facts in hand—whether we may not be in a deflationary situation rather than the inflationary situation that Washington officialdom maintains confronts us. Long and rather sharp declines in the commodity price structure certainly are not a concomitant of an inflationary situation.

Since the middle of last February, when it attained the all-time peak of 392.0 (August, 1939 equals 100), the sensitive daily price index of the Bureau of Labor statistics has declined almost 17 per cent in its descent to about 327. Approximately half of the rise from 264.0 on June 23, 1950, just prior to the outbreak of war in Korea, has been wiped out. And, there are no indications that the decline has been anywhere near concluded.

A price index based on "futures" commodities, traded on the futures exchanges, would show that the decline had carried almost all the way back to the June 23, 1950, level. Sensitive price indices, based on prices of a limited number of usually very active and important spot or cash commodities or on prices of futures, almost invariably have forecast the trend of the general commodity price level.

The comprehensive BLS index of wholesale commodity prices, usually a pretty sluggish affair since it includes a large number of comparatively static or slow moving semi-finished and finished products in its make-up, rose from 157.3 (average 1926 equals 100) in June, 1950, to 184.0 last March and since has slumped in slow and easy fashion to around 177 at the present time. Until very recently, declines in various raw materials (including farm products) accounted for most of the decline in the comprehensive index, with finished products continuing to move upward. Of late, however, prices of finished goods have begun to ease, rather rapidly in some areas, as manufacturers have lowered prices in an effort to bring in some new business and obviate the necessity of sharp curtailment of operations. To the trained commodity price observer, this behavior of finished goods prices indicates that the general price downtrend still has a long way to go.

Price Ceilings Lose Importance

While the Office of Price Stabilization has been busily engaged in promulgating price ceilings on a vast number of commodities, the price ceilings themselves have come to mean less and less. Today, the majority of manufacturers would be very happy if they only were able to obtain in the market place the OPS ceilings for their products.

The official Washington line, so well known now that it scarcely needs repeating, is that defense spending and disposable consumer income will rise in the months ahead as the expanded defense program gets into its stride and that shortages of goods will develop as a result of the diversion of materials to defense production to create an "inflationary gap."

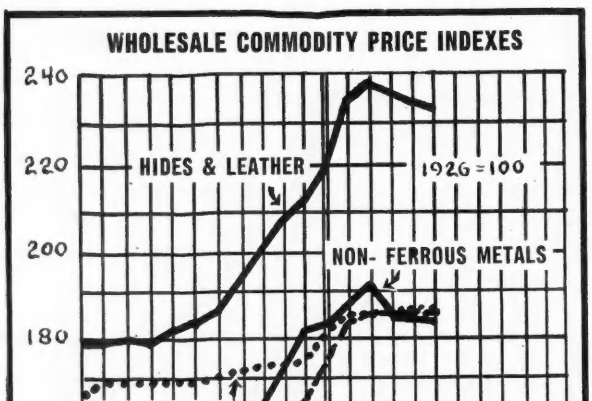
Originally scheduled for the past Winter, then this Spring and then this Fall, the development of an inflationary gap now has been postponed again by Washington until early 1952. Obviously, even Washington cannot now talk of shortages of goods and consumers scrambling for the limited supplies available when the major business problems are surpluses of goods and shortages of customers. But, is there any good reason for supposing that the situation will be materially different by early 1952 from what it is now? That is the $64 question.

Korean War Prevented Deflation

In order to understand just how this situation has come about, we must do a little backtracking. In early June of 1950, just before war broke out in Korea, it was becoming apparent that the post-World War II deflation was not likely to be postponed much longer. Every major war in history has been accompanied by inflation during the war and immediate post-war period, followed by deflation within a few years after the end of the war. It isn't giving any secrets away to say that Washington for several years had been striving to avert deflation (and its concomitant, business recession) by stepping up government spending and by easing of consumer mortgage credit.

Deflation doesn't just happen. In the past, it has come when plant capacity has been overexpanded following a long period of active demand and when consumers' desires, particularly for long-lasting durable goods, have been largely satisfied. And when the various pipelines, depleted during the previous period of underproduction, have been filled beyond capacity. Some classical economic theorists will argue with this, but neither inflation nor deflation ever has paid much attention to the arguments of the theorists.

When war broke out in Korea, the world at large assumed that the outbreak of a global war was close at hand, with its shortages of consumer goods as a result of diversion of materials to production of military goods. The acute shortages of late World War II were fresh in mind and everyone who could, covered far ahead. Various Governments entered into a mad scramble to build up stockpiles of metals and other war materials at the same time that industry, attempting to fill the tremendous civilian orders on hand as a result of the war scare consumer buying boom, also was reaching for materials. Prices inevitably spiraled upward before the Government had spent any additional money for defense.



And then, the global war did not come. The Government, never willing to admit that it may have erred, keeps on talking about the threat of global war. But the buying public is paying scant attention to war scare ideas and has pulled in its horns. Meanwhile, goods of all kinds that were supposed to have become scarce long before this, are clogging distribution channels and numerous manufacturers, in order to avoid further piling up of stocks of goods for which there is little or no demand, are curtailing operations rather heavily.

As this is written, peace in Korea seems close at hand. The Russians, for reasons that are not altogether obscure, are maintaining that the world's problems can be solved peaceably and are gaining adherents in warweary Europe. Officially, Washington is declaring that peace in Korea will not result in any slowing down of the defense program and that defense spending actually must be stepped up. According to the latest version, spending for defense and foreign aid—now at an annual rate of $35 billion—will be increased to a rate of $65 billion by the Summer of 1952.

Off the record, Washington officials admit that it will be very difficult if not impossible to resist public pressure for slowing down of defense spending if the shooting stops. Politicians, with an eye on elections to come, know that the public will not accept huge and mounting defense expenditures—along with the increases in taxes necessitated by such expenditures—when shooting stops and the world trend appears to be towards peace.

If defense spending is curtailed, it is only too obvious that the commodity price decline will be accelerated. At this late date in the postwar business cycle, easing of consumer and mortgage credit is unlikely to have much effect in stimulating business and checking price deflation. These devices, it will be remembered, were used by Washington to prolong the post-war business boom after it had begun to show signs of middle age, if not senility. Now, the majority of consumers are covered for several years ahead on durable goods. There no longer is any real housing shortage; if anything, we have a surplus of housing.

Defense vs. Civilian Business

Let us suppose, however, that Washington is able to maintain and even increase defense spending. What then? It can be calculated, of course, that the high rate of government spending *on top of a well maintained rate of civilian business* (with allowance for such cutbacks in the durable goods industries as may be necessitated by NPA restrictions on the uses of metals and other military materials) will result in such a high level of disposable personal income that a pronounced inflationary gap develops.

Such a calculation, however, overlooks the actual facts of the case, i.e., that civilian business is not being maintained now and probably will slump

further if there is no new flare-up in the international situation. With peace in Korea, consumers unquestionably will be inclined to pull in their horns even more. Consumers still are paying and will be paying for a long time to come for the automobiles, refrigerators, washing machines, television sets, etc., purchased on extended time payments in the wild buying spree in the Summer and Fall of 1950. The majority of city people are a lot closer to being broke than the statisticians calculate. It is a matter of record that, although consumers bought very freely during the recent "price wars" in New York and a number of other cities, finance companies almost immediately reported a slowing down in time payments on old purchases.

Public Wants Lower Prices

There now appears to be little doubt that the postwar buying boom is over. The buying sprees last year put on the finishing touches. The public generally is convinced that prices are coming down and that it is better to have money in the bank than an account with a finance company. Retailers all over the country state that would-be customers are "looking," waiting like ghouls for prices to be slashed and certain that they will be slashed if they wait long enough.

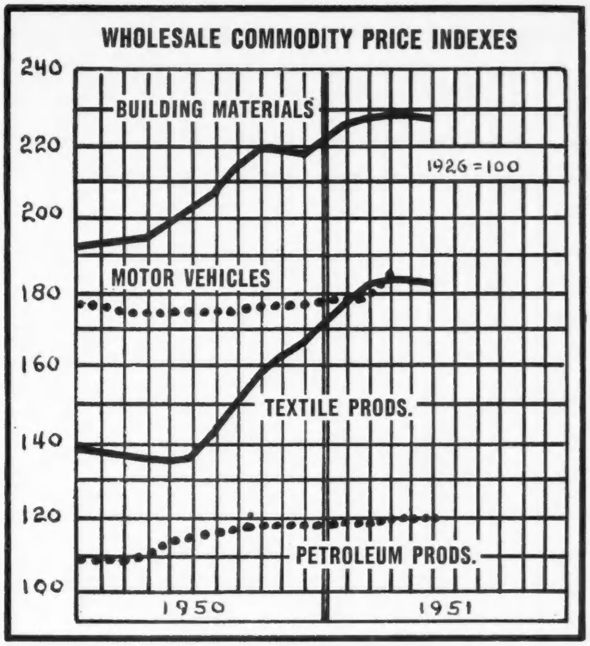
Retail sales in dollar volume are running far below a year ago, when the post-Korea buying spree was getting under way. The physical volume is off more than the dollar volume. No one is particularly excited about this, since no one expected retailers to match year-ago volume this Summer. But, it is not generally realized that, while the dollar value of retail sales since early last Spring ran slightly above a year earlier, the physical volume slumped consistently under a year earlier.

Production is up, away up, but we are not moving as much as we are producing and the volume is dropping consistently. Capital goods industries are in a boom, while practically all other industries are in a recession.

This Summer, for the first time since the 1930's, the seasonal buying movements in the textile markets and in footwear completely failed to develop. If the majority of us were not utterly bewildered with Washington goings-on and with Washington statements on the business situation that bear little relationship to reality, we would have become aware long ago that something was wrong in the picture. When two of our most basic industries, textiles and footwear, find their markets vanishing and are forced to curtail production sharply, it cannot be said that we are in a business boom.

Present indications are that it will take months of reduced factory operations to bring stocks of practically all kinds of merchandise down to normal. The Federal Reserve Board index of industrial output, down in July, has begun to reflect the recession in civilian industries. The second half of 1951 and possibly all or most of the first half of 1952 undoubtedly will witness, barring a new outburst of war scares, depressed rates of operation in practically all civilian industry. Defense now accounts for something like 10 per cent of total industrial output and may climb to 15 per cent.

It is important to note that we now have reached a point where, temporarily at least, large and increasing governmental spending for defense is not sufficient to prevent a decline in total industrial output and rising unemployment.

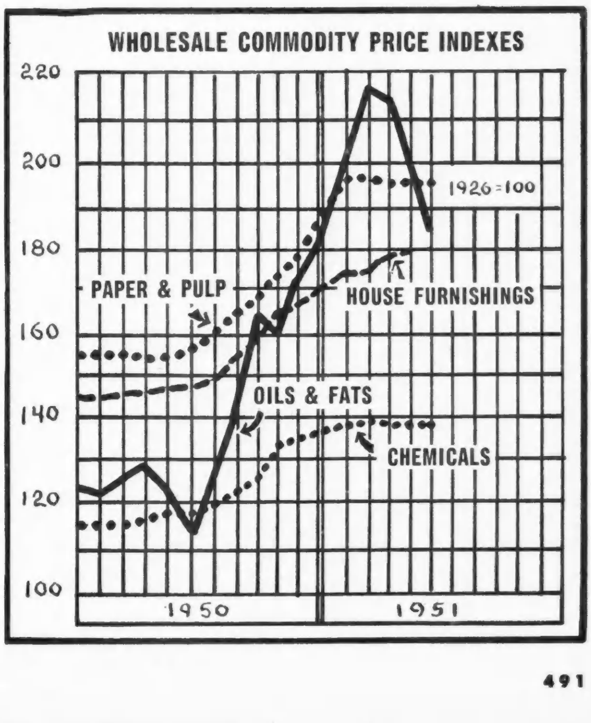


WHOLESALE COMMODITY PRICE INDEXES

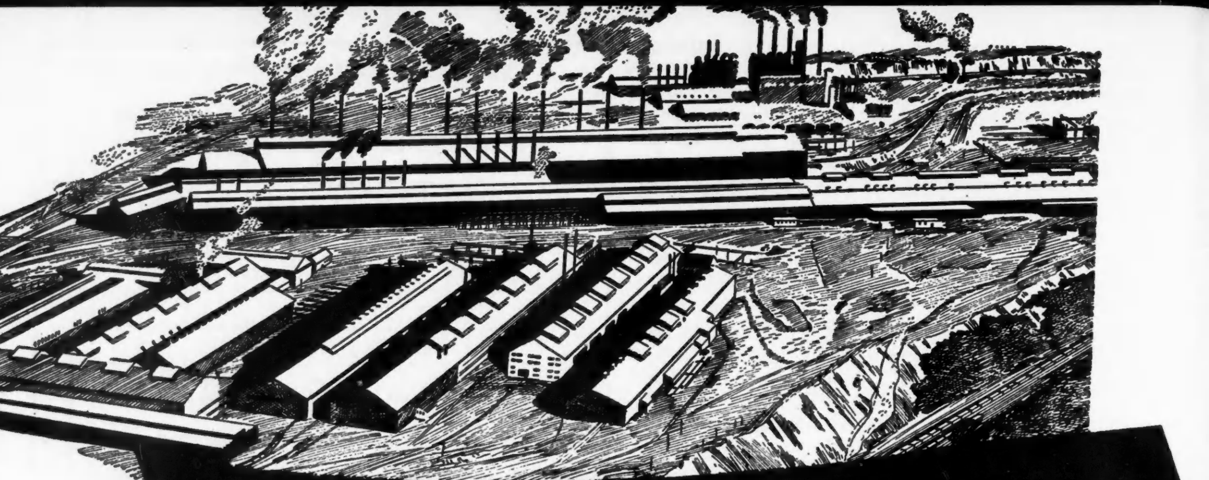
Supplies of everything are large. Even in durable goods, where production has been curbed rather sharply as a result of NPA restrictions on the use of metals, the present output of automobiles, household appliances, etc., still is larger than can be moved. That is, without slashing prices at the retail level.

To a large extent, the slowing down in trade and industry is being attributed to summer slump. However, as we move into the Fall and business still fails to expand where it should, business men will be forced to take a more serious view of the situation.

This is a year of bumper crops. This Fall, with the seasonal upswings in (*Please turn to page* 528)



WHOLESALE COMMODITY PRICE INDEXES



What Second Quarter Corporate Reports Reveal

By J. C. CLIFFORD

Examination of additional second quarter reports, now at hand in increasing numbers, generally confirms the observations made in our initial study of corporate results in our last issue. On the whole, but with specific exceptions, the profit picture has continued favorable despite deep dents made by rising costs and heavy taxes. One reason is that in the majority of cases, sales continued their post-war zoom right through the second quarter. This rise in sales went far towards offsetting narrowing profit margins and the absence of inventory profits which were quite large in the final half of 1950 and the first quarter of 1951.

As it is, first half comparisons generally are favorable in relation to a year ago since the high rate of profits during the first three months of 1951 was sufficient to carry half year earnings, despite second quarter declines, over year-ago levels. What happened in the second quarter came as no particular surprise. The trouble was that profits were no longer tied to the business curve, that taxes and unstable costs skimmed off too much. Additionally, quite a few industries, notably in durable goods lines, were hit by their own private "recessions." In such instances, the degree of profit decline was rather sharp.

Thus the overall picture: Second quarter profits on the whole still good, but not as good as those of the first quarter—and third quarter net will slip further since profits are expected to lag progressively behind the post-Korea levels when everyone scrambled for goods and materials. Moreover, tax rates *may* be higher then, though the tax outlook at this writing remains obscure, particularly as far as the effective date of the proposed higher tax rates is concerned.

Nevertheless, industry's composite earnings in the second quarter held up remarkably well despite numerous cross-currents. Corporate profits after taxes, according to an estimate of the Council of Economic Advisers, were at an annual rate of $22 billion, not greatly below the $23.3 billion rate reported for the first quarter. And this is 7% higher than the $20.6 billion rate of the second quarter of 1950. This estimate makes no allowance for the higher taxes proposed in the pending tax bill. But even if one allows for them, second quarter profits would still appear to have been running at a rate of about $20 billion per annum, only 12% below the record $22.8 billion reported for the whole of 1950, although of course they would show a much greater drop from the final half of last year.

While the composite picture is of importance as far as the general economy is concerned, what interests investors most is how individual companies fared, hence we shall now discuss the earnings experience of a number of leading companies. The results of quite a few have been tabulated in the appended table, covering a fair cross-section of industry.

As was to be expected, the adverse factors affecting second quarter results did not hit all industries equally. Thus the chemical group generally topped its 1950 showings and so did most oil, rail, equipment and paper companies though there were exceptions. Steels generally did not fare so well; most reported declines. Leading auto companies had the same experience and results in the building materials field were mixed.

Du Pont's Huge Tax Bill

An interesting case in point is duPont, one of the few chemicals which lagged behind a year ago. Sales in the first half jumped 32%, from $580 million to $770 million, but per share net dipped to $2.50 from $2.59. Of the $2.50, $1.68 came from the company's own operations and 82 cents from dividends on its holdings of General Motors stock. In the first half of 1950, $1.96 came from company operations and 63 cents from General Motors dividends. As far

as second quarter results are concerned, reported per share net was $1.24 as against $1.26 in the first quarter and $1.44 in the first quarter of 1950.

Taxes of course are the main villain in the picture. In the first six months, Uncle Sam nicked the company for over $176 million compared to only about $73 million in the first half of 1950, a sharp boost indeed. Still this left the company with net profits of over $118 million compared with $122 million in the comparable 1950 period, by no means small potatoes. What did it, was the tremendous boost in sales. Net profit margin in the second quarter was 14.9% compared with 15.6% in the first quarter, both down from the high ratio of 21.5% that prevailed during the second quarter of last year. Profits may have been down both for the second quarter and the first half, but they were by no means "bad." They were, in fact, quite substantial, especially if compared with earlier postwar years.

The report of U. S. Steel Corporation was perhaps half-way between surprise and disappointment. It showed $3.61 a share earned in the first six months compared with $4.08 in the same period last year. But for the second quarter, it showed net of $1.99 per share against $1.62 in the first quarter and $2.44 in the second quarter last year. Taxes of course cut deeply enough, though some feared they might cut deeper than they actually did. Although the tax bill for the first half at $180 million was more than double that of the first six months of 1950, net profits were still ample and more than enough to meet the usual dividend. Here too, (*Please turn to page* 523)

Quarterly Sales, Profit Margins and Earnings of Selected Companies

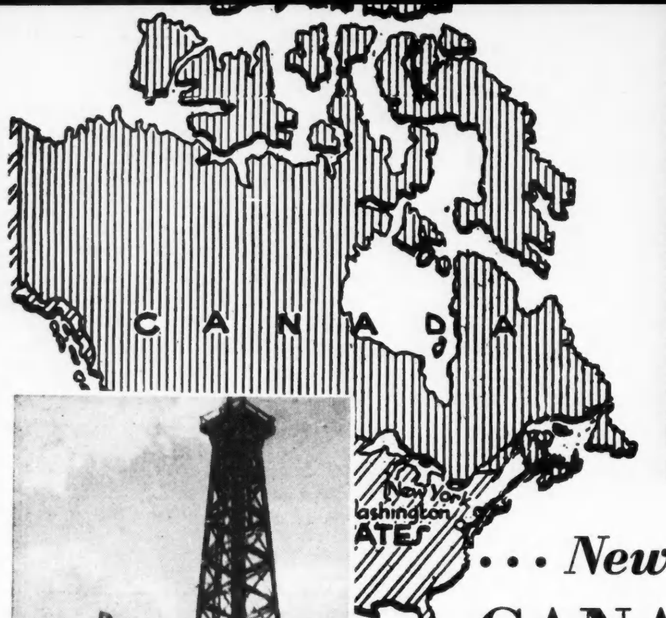
	Second Quarter 1951			First Quarter 1951			Second Quarter 1950		
	Net Sales ($ Mil.)	Net Profit Margin	Net Per Share	Net Sales ($ Mil.)	Net Profit Margin	Net Per Share	Net Sales ($ Mil.)	Net Profit Margin	Net Per Share
Admiral Corp.	$ 33.2	5.1%	$ .88[1]	$ 70.3	3.4%	$ 1.25	$ 57.0	7.6%	$ 2.16
Air Reduction	30.0	6.2	.68	28.2	8.3	.69	23.9	9.3	.82
Allegheny Ludlum Steel	58.7	5.0	1.80	57.9	5.7	2.03	40.7	5.6	1.41
Blaw-Knox	26.6	4.5	.69	20.4	2.6	.38	15.1	6.7	.73
Caterpillar Tractor	113.8	4.3	1.24	109.6	5.5	1.54	83.0	10.7	2.30
Commercial Solvents	14.2	10.4	.57	15.9	10.1	.61	8.3	7.9	.25
Container Corp. of America	59.2	7.1	2.07	58.1	8.1	2.35	34.0	6.8	1.13
DuPont	393.3	14.9	1.24	380.6	15.6	1,26	314.6	21.5	1.44
Douglas Aircraft	57.8	3.5	1.69	39.3	4.2	1.40	30.9	4.9	1.27
Dow Chemical	99.1	12.3	1.71	86.6	10.3	1.33	66.2	16.8	1.40
Eaton Mfg.	49.8	6.1	1.70	47.7	6.0	1.84	39.3	10.1	2.24
Elliott Company	8.2	7.8	1.38	8.0	8.7	1.51	6.8	5.9	.85
Ferro Corp.[3]	10.1	6.6	1.47	10.4	5.9	1.34	8.1	7.7	1.37
Gair (Robert) Co.	21.9	10.0	1.24	21.1	9.0	1.11	12.3	10.7	.70
General Bronze	4.3	6.9	1.04	4.4	5.2	.81	5.2	5.4	.99
General Electric	615.0	5.7	1.23	569.6	6.1	1.21	462.6	7.6	1.41
General Foods	137.2	2.8	.70	224.0	3.9	1.55	124.6	4.5	1.01
General Motors	1,921.0	7.2	1.55	1,959.8	7.2	1.58	1,963.0	13.9	3.07
General Portland Cement	8.0	16.1	1.24	6.7	17.3	1.12	5.9	26.1	1.49
Gillette Safety Razor	25.8	14.7	.86	26.7	16.7	1.03	21.4	16.9	.82
Hewitt-Robbins	9.6	3.6	1.26	8.3	3.4	1.01	5.2	5.6	1.06
Heyden Chemical	8.0	9.0	.61	7.7	9.8	.65	6.7	7.6	.34
Interlake Iron	19.3	8.1	.80	18.6	5.7	.55	16.3	9.9	.83
Joy Mfg.	18.5	7.3	1.55	18.3	8.3	1.73	12.0	8.1	1.11
Liggett & Meyers Tobacco	134.7	4.3	1.41	128.7	4.6	1.43	131.4	5.4	1.72
Mengel Company	10.8	3.6	.63	12.7	4.7	1.01	9.4	5.7	.92
Minneapolis-Honeywell Reg.	31.6	7.1	.80	34.0	9.5	1.23	24.4	12.4	1.16
National Biscuit	81.7	4.6	.53	81.1	4.9	.57	71.8	7.3	.77
Pacific Mills	28.2	3.2	.96	39.9	(d) 1.0	(d) .42	27.5	5.9	1.77
Parke, Davis & Co.	31.6	12.6	.81	36.9	16.1	1.22	25.0	18.6	.95
Penna. Salt Mfg.	12.7	9.3	1.19	12.4	10.4	1.30	10.4	10.8	1.27
Phillips Petroleum	145.6	11.0	1.21	141.4	11.2	1.25	126.2	9.5	.99
Pittsburgh Coke & Chemical	13.7	7.9	1.83	11.1	7.7	1.47	8.8	10.9	1.67
Pittsburgh Consol. Coal	47.3	6.0	1.32	50.5	6.3	1.49	47.7	8.7	1.94
Pullman Co.	68.2	3.8	1.18	40.4	4.4	.83	45.8	7.2	1.51
Reliable Stores	5.3	3.1	.51	4.4	1.4	.20	6.4	6.3	1.27
Remington Rand	53.0	7.6	.83	59.5	7.8	.96	34.2	5.5	.38
Reo Motors	31.1	3.5	2.20	25.7	2.6	1.37	8.3	4.1	.69
Rexall Drug	36.8	.3	.04	40.6	1.8	.22	33.6	(d) 1.5	(d) .15
Rheem Mfg.	24.0	5.1	1.18	26.0	6.4	1.65	15.5	6.2	.95
Rohm & Haas	29.3	6.8	2.36	29.5	6.8	2.35	20.0	9.7	2.36
St. Regis Paper	52.3	8.4	.81	48.3	9.9	.89	36.2	6.0	.39
Sharpe & Dohme	10.6	9.5	.80	12.2	10.2	1.01	9.9	13.8	1.13
Shell Oil	257.1	9.0	1.72	260.1	8.9	1.73	208.6	8.3	1.29
Sylvania Elec. Prod.	43.1	5.1	1.11	60.6	5.8	.84	31.7	3.2	.64
Textron, Inc.	23.1	10.0	1.89	26.0[2]	6.0	1.89[2]	17.1	(d) 7.1	(d) 1.18
Thompson Products	47.6	4.5	1.53	43.0	4.9	1.92	28.4	8.3	2.18
Union Carbide & Carbon	233.5	12.4	1.01	224.7	13.0	1.01	171.1	19.5	1.16
United Air Lines	30.4	5.2	.71	28.1	4.8	.61	26.0	7.4	.88
U. S. Steel	906.1	6.4	1.99	819.4	6.0	1.62	752.8	9.3	2.44
Western Auto Supply	37.3	3.6	1.81	35.8	3.7	1.77	38.1	4.2	2.18
Westinghouse Electric	300.1	4.9	.93	290.4	5.7	1.05	237.7	6.4	1.05

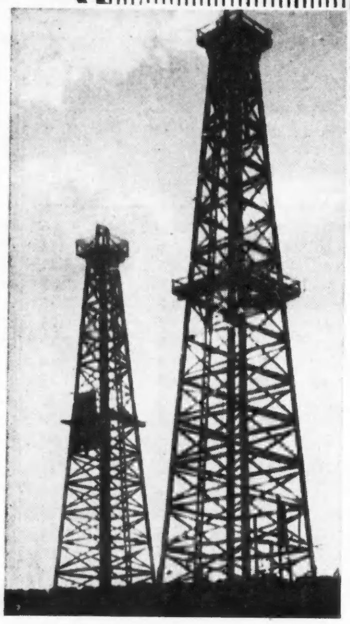
(d)—Deficit.

1—Bulk of second quarter earnings resulted from readjustment of tax reserves.

2—Includes non-recurring profit of $1.45 per share.

3—Formerly Ferro-Enamel Corp.





. . . New Boom Areas in . . .
CANADIAN WEST
—ADVENTURE IN FORTUNE BUILDING

By V. L. HOROTH

One of the most gratifying jobs in the world should be that of the press agent for the Department of Trade and Industry in British Columbia, Canada's province on the Pacific. No one who has delved into this Province's economic possibilities can help being enthusiastic about it. If there is a pioneer area anywhere in the world with room for expansion, with untold natural resources and all the essentials for becoming a great industrial empire, it is British Columbia.

It is true that the Dominion of Canada is undergoing a virtual economic revolution, but the fact is that the seat of this economic revolution is in British Columbia, Central Alberta, where vast oil and gas fields are being developed, and in parts of Quebec and Ontario, where expansion is centered on heavy industries and mining.

The main economic indicators in British Columbia's business have shown an almost uninterrupted upswing since 1949. The Province has received more than its proportionate share—it has 8% of Canada's population and 9% of its area—of the capital that has been flowing into the Dominion from this country and Europe. As a matter of fact, eastern Canadians also are investing heavily. This year's investment in British Columbia's industrial plant alone is estimated at about $300 million, and several hundred million dolllars more will go into the development of her waterpower resources and mineral deposits. Why this interest in British Columbia?

Very few people realize that the Province covers an area larger than our own three Pacific Coast states—California, Oregon and Washington. In fact, half of Idaho could be added. In this area are forests which would cover the whole of New England plus New York and Pennsylvania. British Columbia's potential (undeveloped) waterpower resources are at present estimated at about 12.5 million h.p.—which is more than the potential waterpower resources of the United States east of the Mississippi. And there is coal, gas, oil, non-ferrous minerals, and fine soil to grow crops in. "What more is needed to look forward to the future with optimism", wrote the Provincial Premier, Hon. Byron I. Johnson, last year.

British Columbia's economic development unquestionably got a lift from the great wartime and postwar boom in our Pacific Coast area. As a matter of fact, economically and otherwise (for travel, for example) California has more attraction for the British Columbians than has Quebec or the Maritime Provinces. Long before the war, the chief market for Columbia's timber products and non-ferrous minerals was Great Britain. But during the war, we replaced Britain as a market and a chief supplier.

In 1950, for example, we imported about $227 million worth of goods from British Columbia; this was at least three times as much as the British bought from Columbia, and about four times as much as we bought from her before the war. Our sales to British Columbia amounted in 1950 to about $141 million which was four times prewar.

Impressive Population Gain

It is interesting to note at this point that the population of British Columbia increased from about 800,000 in 1940 to an estimated 1,200,000 in 1951, or 50%. This is a somewhat faster growth than in our own Pacific States.

The economic revolution in British Columbia has been unquestionably speeded up by the war in Korea and rearmament. The growing newsprint shortage and rising prices have also contributed.

The "harvesting" of trees to be used as pulp wood in the manufacture of newsprint and paper, or to be processed into construction timber, plywood, veneer, furniture and other products is the biggest business in the Province, giving employment to about 50-60,000 people. In 1950, the value of harvested timber and pulp wood was about $390 million which, no need to add, was a new record. The processing of forest products accounted for about 40% of the total industrial output of the Province, estimated at about $1,100 million, again a new record.

As a producer of merchantable timber and sawmill products, British Columbia accounts for more than half of the total Canadian output. The bulk of harvested timber consists of western hemlock and cedar, spruce, and douglas fir. Roughly one-half of B.C. sawmill products is sent to the United States. The logging camps have been gradually pushing northward to less accessible areas with logging seasons shorter because of snow, and hence their costs have been increasing; on the other hand, higher prices make possible the recovery of lighter logs.

Among the wood processing industries, by far the greatest expansion is taking place in paper and pulp. When most of the present projects are finished, British Columbia's pulp and paper mills will employ over 10,000 men and represent a capital investment of about $200 million. The provincial output which last year was about 780,000 tons of pulp and paper will be lifted within two or three years to over 1,000,000 tons. In comparison, the United States uses currently about 6,000,000 tons of newsprint.

Most of the companies in the field have some kind of modernization or expansion program under way. What will be one of the largest newsprint mills in North America is now being erectd at Duncan Bay on Vancouver Island at the cost of some $40 million. It will be known as *Elk Falls Co. Ltd.*, and is a joint venture of *Canadian Western Lumber Co. Ltd.* and *Crown Zellerbach Corp.* Ultimate production is planned at about 100,000 tons of woodpulp annually.

New Mill Facilities

The $19 million sulphate pulp mill of *H. R. MacMillan Export Co.* located near Nanaimo, also on Vancouver Island, which was finished only last year, is now being expanded at the cost of $17 million. Eventual capacity is to be about 200,000 tons a year. The mill utilizes sawmill wastes.

Powell River Co. is one of the largest and most efficient producers, is spending some $12 on expansion and new equipment of its pulp and paper plant up on the mainland north of Vancouver City. Its production will thereby be boosted by some 40-50,000 tons to 350,000 tons annually.

Howe Sound Pulp Co. is expected to spend up to $10 million in expansion and modernization. *Canadian Forest Products Co.* acquired a large interest in this company and will furnish it with wood waste.

Other pulp and paper companies operating in British Columbia are *Pacific Mills, Sidney Roofing and Paper, B. C. Pulp and Paper, Bloedel Stewart & Welch, and Westminster Paper Co.*

Two months ago, *Columbia Cellulose Co.*, a subsidiary of *Celanese Corp. of America* opened a huge $27 million plant on a site used by the U. S. Army near Prince Rupert, some 400 miles north of Vancouver City. This plan will eventually produce high alpha celluose (pulp) sufficient to make some 200 million lbs. of rayon yarn and staple fibre. The high alpha cellulose will be supplied to the $40 milion plant which the *Canadian Chemical Co.*, another affiliate of Celanese Corp., is building at Edmonton in the Province of Alberta.

New Undertakings of American Companies in Canadian Northwest*

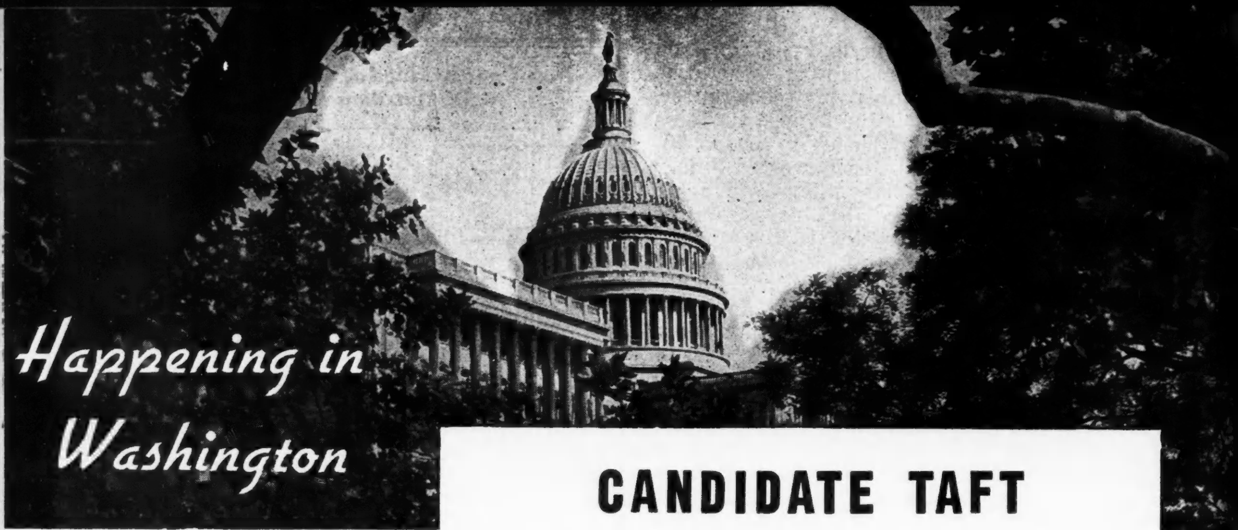
Name of Company	New Developments	Location
Aluminum Co. (Can.)	Plans advanced for construction of power and aluminum facilities.	Brit. Columbia
Anaconda Copper	Natural gas hook-up to Montana mines.	Alberta
British Amer. Oil	Exploration and development of large new oil fields.	Alberta
Canadian Cement	Large new cement plant adding greatly to company's output.	Alberta
Canadian Pacific	40,000 acres under lease and several million more under reserve for exploration by leading Amer. Companies.	Alberta
Celanese	$40 million new plants for petrochemicals and cellulose acetate.	Alberta Brit. Columbia
Crown Zellerbach	Large new newsprint mill.	Brit. Columbia
Delhi Oil (subsid. Texas Co.)	$250 million pipe lines proposed.	Alberta
Imperial Oil (subsid.S.O.N.J.)	New refinery and development of new oil fields.	Alberta
International Utilities	Gas & elect. expansion. Also jointly engaged with Anglo-Canadian in oil and gas development.	Alberta
New Jersey Zinc	Exploration of uranium deposits.	Brit. Columbia

*Including several Canadian companies in which American investors are interested.

Although small and relatively recent, the plywood industry is also expanding. The present production is about one-tenth of the footage produced in our Pacific Northwest. *Western Plywood Co.* is one of the companies in this line.

The second basic industry, the products of which were valued at about $135 million in 1950, is mining. As elsewhere in the West, British Columbia began as a producer of gold. Today, however, owing to rising production costs, the gold mining companies are being left far behind. Their output, worth about $10 million, is exceeded by lead and zinc and coal. Although British Columbia has enormous proven deposits of coal—something like 20% of all Canadian coal deposits—the industry has been sickly. Only two fields out of seven, both of them on Vancouver Island, are located near the present consuming centers. The other fields are strewn over central B.C. and in the Far Northeast, the rich Peace River district, and need rail outlets.

British Columbia produces roughly half of the Canadian output of lead (150,000 tons) and about two-thirds of the zinc output (200,000 tons). The bulk of these metals is produced by the *Consolidated Mining and Smelting Co.* (*Cominco*) which employs nearly 10,000 men out of some 15,000 men engaged in mining. The company operates the largest metallurgical plant in the British Empire at Trail, just north of Washington's border, where it smelts lead-zinc-silver ores from the famous Sullivan mine. The Cominco also operates the new Yellowknife gold mines near Great Slave Lake in the Northwest, a chemical plant in (*Please turn to page* 529)



CANDIDATE TAFT

By E. K. T.

WHILE Senator Taft would prefer to have his current activities otherwise cataloged, it is a campaign for the republican nomination for President and it has all the trappings and will have all the disadvantages that engulf an aspirant early in the field.

> **WASHINGTON SEES:**
>
> The future of the United States in point of militarization is up for discussion and the only question appears to concern how much greater the armed personnel is to become, not whether a cutback should be ordered.
>
> President Truman seems determined that if he is to err, it will be on the side of too large a military force. He has made it apparent in his Detroit speech and elsewhere that he proposes to have the country ready to meet a military crisis should there be simultaneous outbreaks at more than one point. Incidentally, the Detroit address pleased the Pentagon but not the State Department; the call for more men and money for the uniformed force is exactly what the military men wanted, but the assertion that the Korean commies cannot be counted on to keep their words (even before they give it!) seemed undiplomatic to the Acheson staff.
>
> The 4-million man ceiling on military manpower seems likely to be erased soon. A 150-group air force, each group having approximately 50 bombers, is gaining support. This year's federal outlay for defense, hovering around 40 billion dollars, may be the smallest for at least several years if the sponsors of a huge air force expansion win their point. Some Capitol Hill students of military and industrial research point to a practical disadvantage in such a force: it would wind up a continuous project; by the time the last planes are put into the air, the first will have become obsolete.
>
> Other objections heard: inflation would be encouraged even if taxes went sky-high, controls would become permanent, and it's dangerous to have a strong team relying only on scrimmages—they might want "contest."

Taft is not one to leave the Capital in seven-league boots spanning the country in speechmaking tours when the stakes aren't high. From now on, more than ever before, his every act will be weighed in the light of an unannounced but recognized candidacy. One of his first losses will be a measure of senate leadership.

TAFT forces long have recognized that his political future reposes largely in the decision which ultimately must be made by General Eisenhower. Even his best friends are telling the Ohio solon he'd have no chance against the general. Many senators, notably Lodge of Massachusetts, recently returned from conferences with Ike, believe the general will run and will announce at the proper time. They aren't in the mood to build Taft up by following his leadership; they'll want to share it. And certain newspapers fighting Eisenhower for his "internationalism," are backing Taft, giving the impression the senator is out "looking for a fight."

SUPPORT for Taft is almost certain to come from General MacArthur whose speeches are constantly taking on more of a political flavor. The Ohio senator took MacArthur in tow early and basked in the reflected glory of the triumphal return. There's a natural, human desire to repay that kindness. But there's also the recollection that Eisenhower publicly stated, in the midst of MacArthur's campaign for the republican presidential nomination, that a military background doesn't prepare a man for the White House. The unanswered question—which Taftites aren't losing sight of—is: Will MacArthur support be good or bad, alerting his enemies as well as friends?

TELEVISION is getting more than usual attention in the Capital, and it isn't for the entertainment value. Manufacturers and distributors have more than 1 million receiving sets in inventory, sales have slowed to a driblet. The Union of Electrical, Radio, and Machine Workers cites a 50,000 employee layoff as a factor likely to hurt the defense program. But the union chiefs say the Federal Reserve Board's regulations calling for 25 percent down payment, the balance of 15 months is keeping television sets on store floors.

As We Go To Press

"Why pay ten percenters?" government procurement agencies have been asking businessmen in a most disapproving tone; and it appears that the suggestion of direct contact is getting across. Since establishment of the Business Inquiry Center May 1 in the main floor lobby of the Old General Accounting Office here, it has accommodated more than 30,000 personal callers and handled in excess of 25,000 telephone inquiries. While time and money saving make up the principal benefits, it isn't even necessary to come to Washington except in rare situations, says NPA. It's branch offices can give approximately the same service.

Over many years of effort, backers of a constitutional limit on federal tax have become reconciled that congress won't take the initiative and are planning to start at the other end of the legislative process — the statehouses. Idea is an amendment declaring that federal taxation, except in time of declared war, shall not exceed 25 per cent of the national income. Congress has toyed with the idea, but hasn't worked up sufficient enthusiasm to start the machinery of constitutional amendment in motion. (Many of the members, mostly old timers, think it unwise to "put a strait-jacket" on the appropriating authority; some, for reasons not readily apparent, regard it an insult to suggest congress cannot be trusted to keep appropriations within the country's ability to pay.)

The state legislatures can force congress to call a constitutional convention, but the petitions of two-thirds of the assemblies are necessary. That means 32 states must join — and they never have in the past, although the state-inspired constitutional convention has been urged on many questions, some of which were written in through the reversed process by which congress initiates and 32 states then indorse. The past performance in this respect doesn't particularly cool the ardor of 25 per cent tax limitation. Already 21 states are on record, signers of the petition.

President Truman's stubborn determination (which has worked both for and against his purpose under differing circumstances) is clearly behind his repeated insistence that a tax increase of 10 billion dollars is essential to balance the budget this year. He reiterated this demand in his economic report and he appears to be just about the only public official in the Capital who holds any hope that congress will come close to that amount in its tax levying this year. As a matter of fact, as time goes on, the chance of approaching his tax goal becomes dimmer.

The White House has thrown its weight behind the departmental drive to impress that cease fire in Korea doesn't mean the security program can be dropped. There's agreement on that general point; some question on the matter of degree. But Mr. Truman asks a stepped-up military program and in that respect he again invites the fishy eye of a skeptical congress. Defense already is costing the country 35 billions a year; it would be hard, if not impossible, to apply the brakes firmly enough to keep the outlay below 65 billions in the 1952 fiscal year, unless unconsionable waste of the investment already made, the contracts already entered into, are to be countenanced. Such an expenditure will siphon off 20 per cent of national income. The President doesn't wince at that figure. "We can stand it," he says reassuringly.

The President's economic advisers see some signs of relaxing inflation and it worries them. The easing hasn't been enough to change the overall picture, but it is apparent enough to encourage movements which may build new ires, they moan. The Administration program to end the upward spiral is hardly subject to attack when viewed abstractly: paring down on nonessential expenditures; taxation to a point which stops senseless bidding or scarce commodities; credit controls and saving programs; controls

over wages and prices. Convincing, it is; accomplished in its fullness, it never has been.

The headaches of political party leadership are not new to Rep. Joseph W. Martin of Massachusetts, republican leader in the house, but it's doubtful whether any has been more acute than the one he experienced in the abortive "get Acheson" campaign. The clumsy attempt to drive the Secretary of State from office by denying him his salary was conjured up by a republican and in a mood of desperation to "do something," the party's caucus approved it. That forced Martin, in his leadership role, to bespeak the vote of all GOPers and to put on as good an act as possible.

The attempt failed -- overwhelmingly. Martin, naturally, must accept the inevitable public appraisal that he was largely the target of the defeat, which was bound to come because there are enough good lawyers in congress to know that the action would have little chance of surviving court challenge. Martin knows government and he argued privately that the plot was a direct interference by one branch of the government with a co-equal one; he had used that argument at great length whenever FDR tagged legislation "must," and often persuaded colleagues to vote such bills down in protest against the invasion.

By voting 171-to-81 against the proposition, the house came as close as either branch of congress has up to now in passing a vote of confidence in Secretary Acheson. Of course it wasn't that, at all; but it will be used in the political campaign and elsewhere — and the GOP cannot appoint a shadow to tag along after every public speaker to point out that the motion was concerned with barring anyone from government office who has represented a foreign government in the past five years. It didn't specifically mention Acheson, whose law firm once was retained by the Government of Poland.

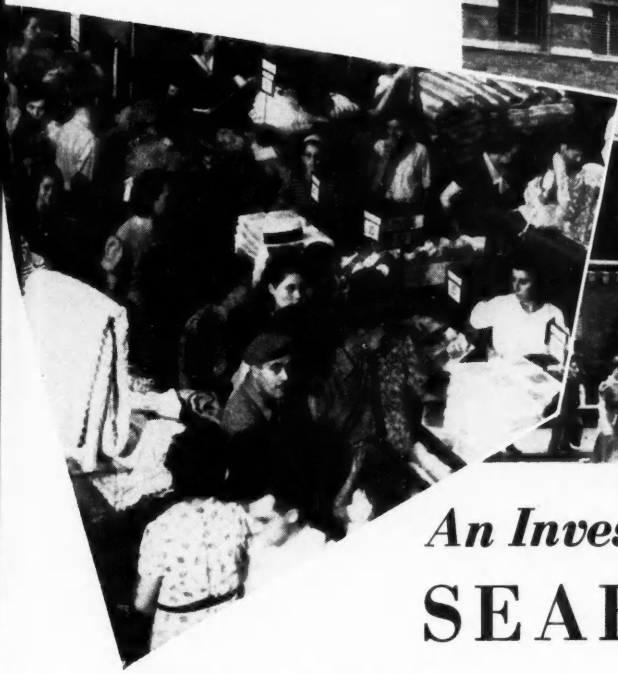
Objective observers saw the drive coming at a particularly bad time. The Korean situation was clearing up (at least seemed to be) under a diplomatic rather than military maneuver -- and Acheson personified this country's diplomatic arm. Some concern was expressed lest the commies take it to mean that the cease fire proposal doesn't have unified backing in the United States, that Acheson was being punished for his part in it. The house was doing little to curb that line of thinking. Only two days earlier, it had voted to cut 2.3 million dollars from contributions to international organizations.

Vote by the house members to trim down foreign contributions had been "telegraphed" for months; criticism of the part other nations have been playing in creating a unified democratic world has been repetitious. The congressmen reflected a belief that the part the United States has been paying in both manpower and money is out of proportion. The money saving actually is miniscule -- a couple of millions for an international organization, against many billions for the military front that speaks the aspirations of UN.

Newspaper publishers who had looked to Alaska as a source of newsprint supply, releasing the grip Canada has on the American market, will have to wait longer or look elsewhere. The Department of Agriculture has leased the timber rights on a large part of Tongass National Forest but the lessee, Ketchikan Pulp and Paper Co., will produce rayon, cellulose and cellophane. No paper. Newspaper owners along the West Coast had considered purchase of the timbering rights, setting up of newsprint mills, but weren't able to get together on a cooperative venture.

The financial arrangement for the new Alaskan industry is a favorable one. In the absence of interested bidders for the timber rights (invitations were sent out a dozen times over the past 30 years), the government chopped away its asking figure. Next, it was concluded that the project has a definite defense tie -- it can be converted to a gun cotton facility -- and a certificate of necessity was issued, permitting amortization of 65 per cent of plant cost within five years, for federal income tax purposes. Estimated outlay is 40 million dollars.

Sears, Roebuck has spent $300 million since the ending of the war to enlarge and improve its physical plant.



An Investment Audit of . . . .

SEARS-ROEBUCK

By WARREN BEECHER

In modern investment practice, the term "growth" company has been frequently used to describe specific types of industrial concerns such as chemicals, drug and glass groups which, by the very nature of their businesses, are constantly seeking through scientific research, for new products and by-products of their original lines of manufacture. It may seem strange therefore, considering its special connotation, that the term "growth company" can be associated with the more conventional types of business such as merchandising. However, in the case of Sears-Roebuck it does seem that this term may be justifiably employed, as this analysis will attempt to show.

"Growth" in the case of Sears does not merely mean a more or less steady growth in volume of business and profits over a period of years, for in that case we should have to use this term with reference to most American concerns which surely are doing much more business and earning more profits, speaking generally, than they ever have. With Sears, the growth element consists not merely of the expansion of sales, which has been on an enormous scale, but rather in the particular way in which the company has been and is now expanding. In order to understand how this came about, it is necessary to obtain a clear picture of the objectives of the management and the means they have adopted to assure such ends.

The essential fact about the management of Sears-Roebuck is that it has been and is moving with the times. Dealing in the past decade with an abnormal period, due to war and threats of war, it has not settled back and waited for more normal times to return but has plunged in boldly and with radical use of its financial resources has not hesitated to add on a very large scale to its facilities.

The most important move this company made was when, years ago, it decided that more or less complete dependence of farm prosperity through its mail-order sales would very likely inhibit the company's growth. Besides, it felt that this would make the company too vulnerable to fluctuations in the size of crops and their prices. It also recognized the vital fact that the nation's general trend was toward industrialization and that the large and medium-sized urban centres, with their growing populations, would absorb any facilities that enterprises such as Sears could furnish.

This has proved to be the case, and to-day Sears has 665 retail stores; about 90 of these are large class "A" department storse, which sell the entire range of merchandising products, and the balance are class "B" and "C" stores which sell mainly hardware, paints, automobile and household appliances, etc. Mail order departments are maintained in all these establishments, in addition to which the company has about 400 catalogue offices.

Activities in Latin-America

The reader, of course, is more or less generally familiar with this phase of Sears' activities but he probably has not yet learned about the significant extension of Sears' activities to South America.

In a very far-sighted way, the management understands well that for the next decade or two, Latin America is destined for a complete modernization of its sales methods, based on U. S. practices, and that the best interests of the company will be served by taking advantage of the actual and potential markets south of the border. In effect, Sears has created a virtual revolution in Latin American sales

Long Term Operating and Earnings Record

Fiscal years ended January 31	Net Sales	Operating Income (Millions)	Operating Margin	Taxes	Net Income (Millions)	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range[1]
1951-52 (First 5 months)[3]	$1,065.4	$	$	$	$	......	$	$	......	....
1951	2,556.3	332.4	13.0%	160.0	143.6	5.6%	6.08	2.75	20.7%	[2]58 -51½
1950	2,168.9	194.2	8.9	70.0	108.2	4.9	4.58	2.25	17.6	55 -40
1949	2,295.9	250.6	10.9	91.5	137.2	5.9	5.80	2.25	24.5	44¼-33⅞
1948	1,981.5	215.0	10.8	85.3	107.7	5.4	4.56	1.75	24.1	43¼-31¾
1947	1,612.5	184.7	11.4	71.1	100.0	6.2	4.24	1.75	26.3	40¾-30⅛
1946	1,045.2	109.9	10.5	62.8	35.8	3.4	1.52	1.06	11.1	49⅝-35¼
1945	988.7	112.1	11.3	71.4	34.1	3.4	1.45	1.06	11.0	40 -24⅞
1944	852.5	94.2	11.0	53.5	33.8	3.9	1.44	1.06	11.4	26⅝-21
1943	867.8	104.8	12.0	62.4	33.9	2.8	1.46	1.06	8.6	22½-14⅞
1942	915.0	100.1	10.9	57.0	36.7	3.2	1.58	1.06	10.5	15½-10¾
10 Year Average 1942-51	$1,528.4	$ 169.8	11.0%	$ 78.5	$ 77.1	4.4%	$3.27	$1.60	16.5%	58 -10¾

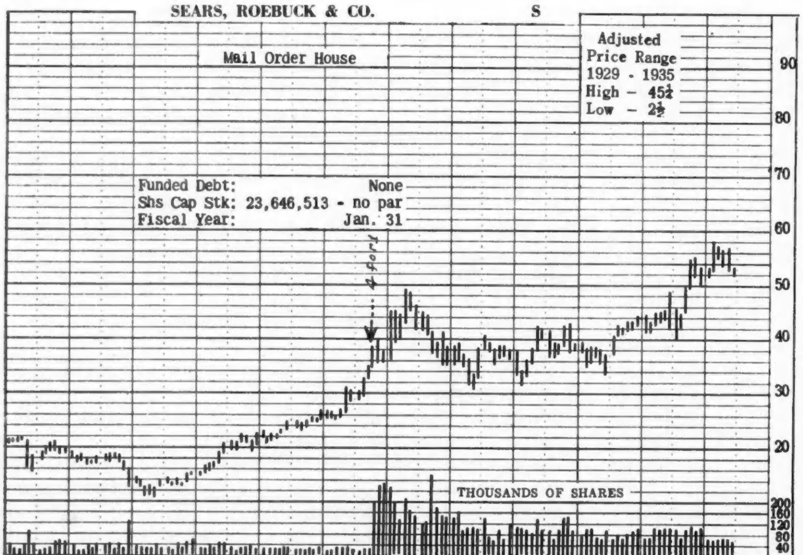
[1]—Calendar years. [2]—To July 25, 1951. [3]—Ended June 30, 1951.

practices. Thus, its stores, of which there are now twelve, soon to be fourteen, are carbon copies of the units in the United States.

Going directly contrary to the old-fashioned methods of Latin American retailers, it has utilized its home mass merchandising techniques. For example, it uses price tags on its merchandise, generally unheard of previously in Latin America, and has not attempted to squeeze the market by excessive markups. Sears marks up about 38% against 50-70% for its South American competitiors. These lower prices, of course, are largely a result of Sears' superior distribution and purchasing facilities. The result is that goods are turned over four times a year and over, whereas the local stores consider themselves fortunate if they can get a once-a-year turnover. It is interesting to note that Sears advertises without stint in order to attract the native public and its modern methods certainly have produced results. The company is wise in that, where possible, it purchases local products and thus stimulates local support.

Sears did a Latin American business of 42 million in 1950 and it is estimated at 46 million in 1951. The chairman, in calculating the long-range trend, thinks this figure will be around 100 million by 1960. This, of course, is not a substantial percentage of Sears' total business but is not to be minimized on this account because this business is exceptionally profitable on account of the tax angle.

One advantage of the Latin American business is that profits are not taxed as high as in the U. S. Naturally, profits from South America to Sears-Roebuck are taxed when they arrive in the United States but they are not subject to excess profits taxes, an important consideration these days and probably for some years to come. Furthermore, credit is allowed by the U. S. on any taxes paid by Sears to the various Latin American countries in which it does business. These are: Cuba, Mexico, Venezuela and Brazil, and it is possible that Colombia will be added to this list.



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	1.58	1.58	1.46	1.45	1.45	1.52	4.24	4.56	5.80	4.58	6.08	
DIV.	1.06½	1.06½	1.06½	1.06½	1.06½	1.06½	1.75	1.75	2.25	2.25	2.75	
Wkg Cap $ Mil	171.8	183.8	196.0	216.7	227.2	256.2	295.0	330.7	375.7	411.5	469.3	

With this as an illustration of the company's forward-looking policies, it is important to examine the changes of the company's position over the past decade for in this record, especially over the past few years, will be found the justification of the management's aggressive policies. Thus, Sears' capital expenditures since the ending of World War II will have been in the neighborhood of close to $300 millions by the close of the fiscal year ending January 31, 1952. The growth of sales is shown in the appended tabulation.

Based on the results for the first five months of the current fiscal year, which has produced sales of $1065 million or about 11.4% above the same period of

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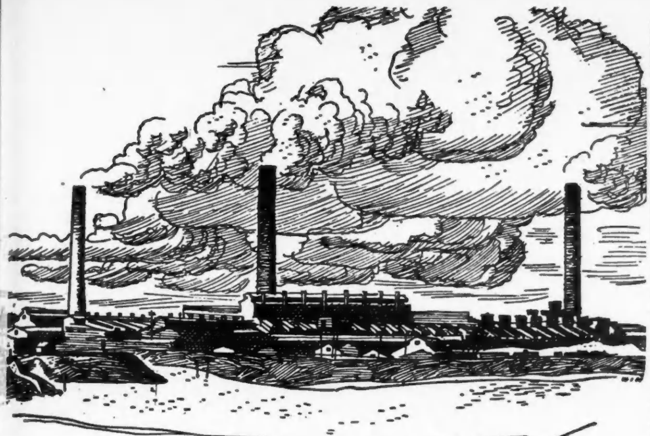


FIVE COMPANIES EXPANDING INTO NEW FIELDS

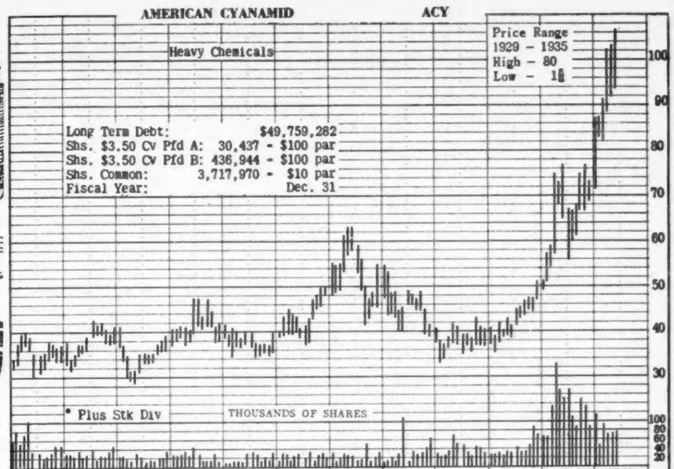
SELECTED BY OUR STAFF

Successful diversification, the extension of activities into new fields either to exploit the fruits of research, to anticipate new trends of demand or merely to stabilize operations in volatile lines of business, has always been one of the soundest tests of corporate management. The reason is that diversification in itself holds no guarantee of financial reward; frequently enough, where imprudently undertaken, it has led to serious losses and worse.

Successful diversification on the other hand has in many cases paid off handsomely. Usually the addition of new lines by a well-managed corporation represents a natural development particularly if the new product is related to a company's principal line of business. This is generally the case where new opportunities are created by extensive research as in chemicals, pharmaceuticals, metallurgy etc. And research has become a dynamic feature of our postwar economy. Less frequently perhaps, but potentially no less important, there has also been diversification into unrelated lines of activity in an effort to capitalize on new demands or to stabilize operations and earnings of a business otherwise subject to considerable seasonal or cyclical fluctuations. If successful, such diversification invariably tends to enhance a company's stature, its financial position and the market valuation of its equity.

For the benefit of our readers, we have selected five companies which have created, or are creating, promising potentials through diversification. All are financially sound, have aggressive and resourceful managements, and because of diversification efforts hold increasing growth prospects under favorable economic conditions and the promise of greater earnings stability if recessive trends should develop.

On this and following pages, we present statistical data and brief comments pertinent to the companies selected, as well charts showing long term market action of their stocks.



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	2.44	2.42	1.78	2.27	2.20	2.02	2.90	2.96	3.84	5.28	9.00	
DIV.	*.60	*.60	*.60	*.60	1.35	1.25	1.50	1.00	1.50	2.00	4.62½	
Wkg Cap $ Mil	30.4	39.0	49.3	54.2	54.9	71.9	55.2	67.6	68.6	73.1	128.4	

AMERICAN CYANAMID COMPANY

BUSINESS: As the fourth largest unit in the chemical industry, company has forged ahead strikingly in recent years with intensive research in pharmaceuticals and biologicals contributing substantially to the rapid earnings growth. Products include a wide range of industrial and agricultural chemicals, the famous "wonder drug" aureomycin as well as other new important drugs, and latterly the company has been entering the synthetic fibre field primarily as a supplier of acrylonitrate, a raw material for fibres of the Orlon and Chemstrand type. It is also said to be testing a synthetic fiber of its own.

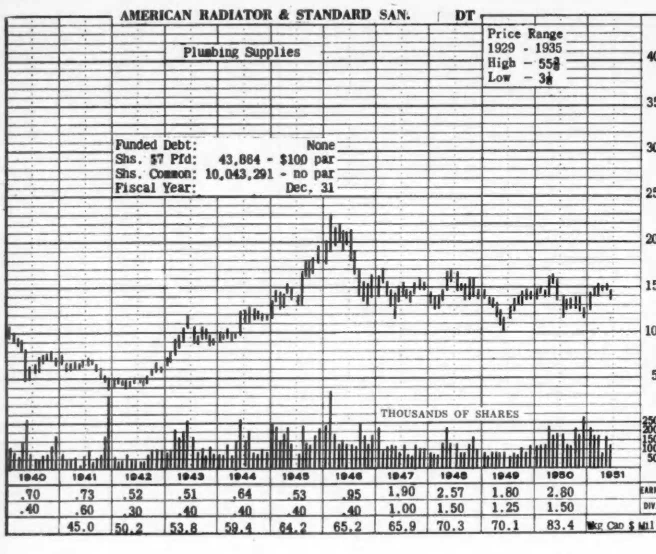
OUTLOOK: Company last year reported a record net profit of $9 a share despite higher taxes and 1951 operations may net close to $10 a share in view of the strong demand for the company's products. Sales in the first half of 1951 were 39% higher than last year and per share earnings were $5.80 as against $3.87 in the first half of 1950. Including the company's equity in Associated Companies (49% or 50% owned), per share net came to $6.14 versus $3.87. First half results however also included a dividend distribution of $5.88 million or $1.40 a share out of accumulated earnings by Southern Alkali Corporation, the 49% interest in which was recently sold to Pittsburgh Plate Glass Company for about $13.4 million. The company's laboratories continue to come up with interesting new developments which will add further profitable items to its growing drug line, and chemical activities are moving at a fast pace. Together this portends continued substantial earnings despite sharply higher taxes which so far in 1951 were computed on the basis of the overall ceiling rate of 62%. Bolstered by last year's sale of new preferred stock, finances are strong with cash items substantially exceeding current liabilities. Substantial expansion of productive facilities enhances the operating and earnings outlook.

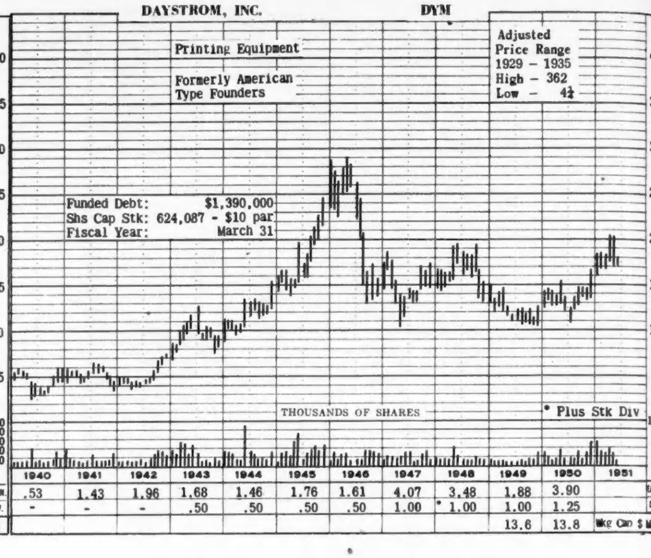
DIVIDENDS: 1950 disbursements, including extras, totalled $4.62½ a share and the present quarterly $1 dividend may again be supplemented by a yearend special.

MARKET ACTION: Recent price—125 compares with a 1951 range of High—128½, Low—71¾. Indicated yield of 3½% reflects the growth factor but may well be higher depending on final dividend decisions.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	December 31 1950 (000 omitted)	Change
ASSETS			
Cash	$ 15,434	$ 53,064	+$ 37,630
Marketable Securities	799	60,184	+ 59,385
Receivables, Net	8,348	37,049	+ 28,701
Inventories	21,361	56,883	+ 35,522
TOTAL CURRENT ASSETS	45,942	207,180	+ 161,238
Net Property	27,303	102,574	+ 75,271
Investments	7,425	13,597	+ 6,172
Other Assets	5,747	2,399	— 3,348
TOTAL ASSETS	$ 86,417	$325,750	+$239,333
LIABILITIES			
Current Debt Due	$	$ 4,835	+$ 4,835
Accounts Payable	9,018	33,645	+ 24,627
Accruals	586	718	+ 132
Tax Reserve	3,150	39,493	+ 36,343
TOTAL CURRENT LIABILITIES	12,754	78,691	+ 65,937
Reserves	3,595	1,225	— 2,370
Long Term Debt	11,648	50,387	+ 38,739
Preferred Stock	8,548	53,592	+ 45,044
Common Stock	26,183	35,973	— 9,790
Surplus	23,689	105,882	+ 82,193
TOTAL LIABILITIES	$ 86,417	$325,750	+$239,333
WORKING CAPITAL	$ 33,188	$128,489	+$ 95,301
CURRENT RATIO	3.6	2.6	— 1.0





AMERICAN RADIATOR & STANDARD SANITARY CORP.

BUSINESS: Principal activity is manufacture of a complete line of plumbing, heating and ventilating equipment but in recent years, operations have been broadened to include a variety of building accessories and numerous other products including plastics, temperature controls, fluid drives for industrial and marine use, power plant and oil refining equipment, and hydraulic couplings. The business extends to all leading world markets.

OUTLOOK: Heavy demand for its major products created by the construction boom resulted in record sales and earnings last year with per share net of $2.80 compared with $1.80 in 1949, despite higher taxes including EPT equal to 34 cents a share. The company continued to benefit from the high rate of residential construction during the first half of 1951 and for the year as a whole looks to a large volume of regular business despite restrictions imposed on construction activity. Thus first half sales came to $161 million as against $113.7 million last year, and per share net to $1.20 versus $1.04, despite a rise in tax charges from $6.7 million to $19.6 million. Defense work is adding to current business. In World War II, company was the largest producer of magnesium castings for the aircraft industry and recently has again converted one of its plants to the same purpose. Increasing armament work is likely. Apart from residential building activity, currently still high, company expects to benefit from a potentially large amount of industrial and modernization work, and non-building lines—undertaken to stabilize operations and earnings in view of the traditional sharp cyclical fluctuations in the building field—should help maintain earnings, should building activity recede under the impact of credit and materials restrictions. Company has a relatively sheltered EPT position with an estimated exemption base of around $1.55 a share. Finances are strong and liquid with current liabilities more than covered by cash items, and a current ratio of 3 to 1

DIVIDENDS: Quarterly payments of 25 cents last year were supplemented by a special of 50 cents for a total of $1.50, and dividends should continue at least at an annual rate of $1.25.

MARKET ACTION: Recent price—15½ compares with a 1951 range of High—15¾, Low—12¼. Indicated yield is about 8%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1950 (000 omitted)	Change
ASSETS			
Cash	$ 13,323	$ 27,651	+$ 14,328
Marketable Securities		21,147	+ 21,147
Receivables, Net	14,767	30,013	+ 15,246
Inventories	24,184	49,046	+ 24,862
TOTAL CURRENT ASSETS	52,274	127,857	+ 75,583
Net Property	48,407	56,180	+ 7,773
Investments	11,738	13,233	+ 1,495
Other Assets	2,882	4,497	+ 1,615
TOTAL ASSETS	$115,301	$201,767	+$ 86,466
LIABILITIES			
Notes & Accounts Payable	$ 3,872	$ 17,763	+$ 13,891
Accruals	1,076	......	— 1,076
Tax Reserves	3,557	26,642	+ 23,085
TOTAL CURRENT LIABILITIES	8,505	44,405	+ 35,900
Reserves	854	867	+ 013
Other Liabilities	1,153	......	— 1,153
Long Term Debt	6,500	......	— 6,500
Preferred Stock	4,386	4,386	......
Common Stock	71,111	70,303	— 808
Surplus	22,792	81,806	+ 59,014
TOTAL LIABILITIES	$115,301	$201,767	+$ 86,466
WORKING CAPITAL	$ 43,769	$ 83,452	+$ 39,683
CURRENT RATIO	6.1	3.0	— 3.1

DAYSTROM, INCORPORATED

BUSINESS: This company (formerly ATF, Inc.) is the parent of six wholly-owned subsidiaries and divisions operating in five major industries. These are printing equipment, furniture, electronics, plywood and precision instruments. Diversification of activities has served to broaden the company's earnings base, extend its markets by entering growing industries, and to enhance corporate stability through increased product diversification. Previously company had been engaged solely in the production and distribution of printing presses, supplies and a wide variety of other equipment for the graphic arts industry.

OUTLOOK: In the fiscal year ended March 31, 1951, sales of all divisions increased with furniture making the most impressive gain. Net sales at $42.4 million were up 29% and lower unit costs widened margins appreciably, thus pretax net almost tripled over the previous fiscal year. After taxes, including EPT in the amount of 63 cents, net income about doubled with per share earnings totalling $3.90 as against $1.88. For the fiscal quarter ended June 30, 1951, company reported net earnings of 45 cents a share against 56 cents in last year's comparable period. The management reported a backlog of defense orders of over $50 million, surpassing total sales for the last fiscal year, thus any cutback in regular line output should be more than offset by larger Government work. Since margins on such business will be somewhat narrower, overall earnings may decline somewhat but should continue to assure ample dividend coverage. Company is currently working on some 12 defense projects and a $4 million plant is being built for production of Navy fire control apparatus. Steel shortages have been cutting into production of civilian goods, particularly metal furniture, but new designs are being developed to make furniture out of wood as well as metal. Defense work will be an important earnings factor until 1953; thereafter, company should continue its growth trend based on product diversification in promising fields.

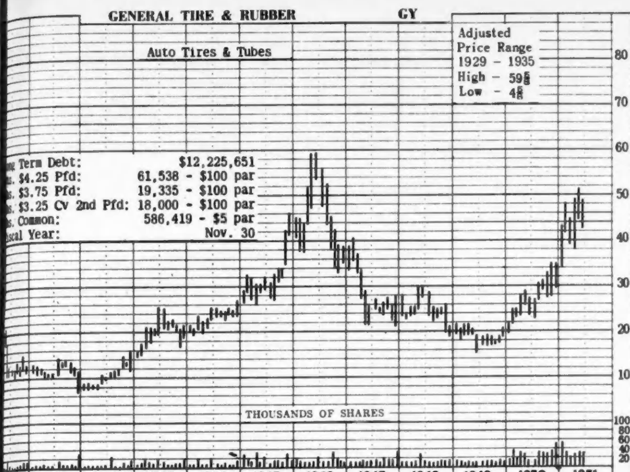
DIVIDENDS: Payments are at a quarterly rate of 25c, with the total so far this year raised to $1.25 by declaration of a 50c extra. The 1951 aggregate thus will be no less than $1.50 a share.

MARKET ACTION: Recent price—17¼, compares with a 1951 range of High—20¼, Low—16. Indicated yield is close to 9%.

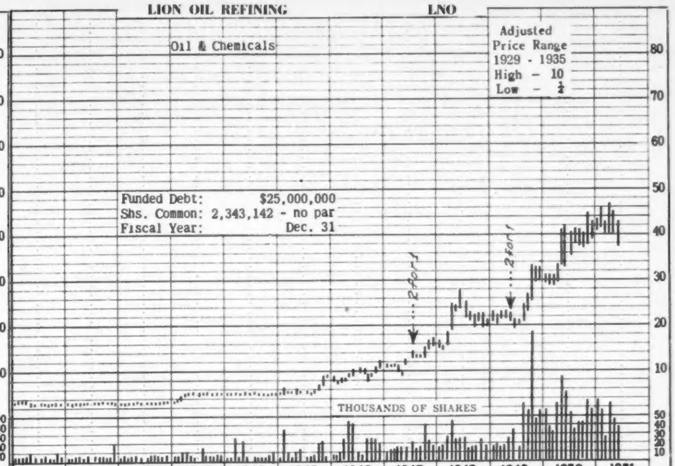
COMPARATIVE BALANCE SHEET ITEMS

	March 31 1949*	1951 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 3,218	$ 2,531	—$ 687
Receivables, Net	4,264	6,792	+ 2,528
Inventories	8,895	9,831	+ 936
Other Current Assets	157	189	+ 032
TOTAL CURRENT ASSETS	16,534	19,343	+ 2,809
Net Property	5,287	5,248	— 039
Investments	044	027	— 017
Other Assets	807	869	+ 062
TOTAL ASSETS	$ 22,672	$ 25,487	+$ 2,815
LIABILITIES			
Notes Payable	$ 555	$ 1,300	+$ 745
Accounts Payable	2,891	3,713	+ 822
Accruals	156	468	+ 312
TOTAL CURRENT LIABILITIES	3,602	5,481	+ 1,879
Reserves	946	784	— 162
Long Term Debt	1,945	835	— 1,110
Capital Stock	6,249	6,249	......
Surplus	9,930	12,138	+ 2,208
TOTAL LIABILITIES	$ 22,672	$ 25,487	+$ 2,815
WORKING CAPITAL	$ 12,932	$ 13,862	+$ 930
CURRENT RATIO	4.6	3.6	— 1.0

* ATF Inc.; present title adopted February 5, 1951.



1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	
.85	2.99	1.52	3.05	3.53	2.20	9.05	9.08	7.33	.94	13.88		EARN.
.50	1.00	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00	3.00		DIV.
.7	9.4	10.0	13.3	10.4	14.5	21.0	24.4	35.4	35.0	38.8	Wkg Cap $ Mil	



1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	
.26	.56	.51	.79	.85	.95	1.69	3.41	5.01	3.89	5.97		EARN.
.25	.25	.25	.25	.25	.35	.38½	.87½	1.37½	1.50	1.87½		DIV.
1.7	1.2	3.6	3.6	5.6	5.2	10.1	9.3	16.3	13.5	14.6	Wkg Cap $ Mil	

GENERAL TIRE & RUBBER COMPANY

BUSINESS: Though ranking fifth in tire sales, General Tire occupies a fairly strong industry position, further enhanced by growing non-tire activities. The latter include mechanical rubber and sporting goods, plastics, development of a highly promising new synthetic rubber process, jet propulsion, and also important radio broadcasting and telecasting interests. Company's vast research facilities are playing an important part in its continued progress.

OUTLOOK: Reflecting booming tire sales, the company in its fiscal year ended November 30, 1950, netted a record $13.88 a share on sales of over $125 million, compared with only 94 cents earned in fiscal 1949 on volume of $92.5 million. The sensational earnings gain, apart from rising volume, reflected a sharp widening of profit margins and occurred despite a shift to a LIFO inventory method which meant a reduction in per share earnings of $2.46. Net profits in fiscal 1951, while probably lower than those in the preceding year, will continue substantial as indicated by per share net of $5.48 reported for the six months ended May 31, 1951, which compares with $2.47 earned in the comparable period last year. For the entire fiscal 1951, peak sales are virtually assured not only because of the heavy replacement demand for civilian tires but also because of the company's ability to handle substantial military business, of which it is assured, with a minimum of dislocation. The company also has been steppng up output of plastics, currently in heavy demand, and its new synthetic rubber process, permitting improved yet cheaper products, has been hailed as heralding a "new era in rubber." The growing importance of non-tire lines should progressively tend to stabilize earnings in a normally rather unstable field, an expectation which has already led to an improved stature of the stock. Company's EPT position is favorable, minimizing tax impacts.

DIVIDENDS: Current quarterly payments of 50 cents, plus a probable extra bringing this year's payments to last year's total of $3, appear amply covered by prospective earnings.

MARKET ACTION: Recent price of 45⅜ compares with a 1951 range of High—51¼, Low—34. Yield is 6.6%.

	November 30 1940	1950	Change
		(000 omitted)	
ASSETS			
Cash	$ 937	$ 13,941	+$ 13,004
Receivables, Net	4,461	20,953	+ 16,492
Inventories	7,341	19,261	+ 11,900
TOTAL CURRENT ASSETS	12,739	54,155	+ 41,416
Net Property	4,979	14,741	+ 9,762
Investments	342	4,348	+ 4,006
Other Assets	398	1,783	+ 1,385
TOTAL ASSETS	$ 18,458	$ 75,027	+$ 56,569
LIABILITIES			
Notes Payable	$ 2,500	$ 199	—$ 2,301
Accounts Payable	964	9,160	+ 8,196
Accruals	101	1,888	+ 1,787
Tax Reserve	403	4,017	+ 3,614
TOTAL CURRENT LIABILITIES	3,968	15,264	+ 11,296
Other Liabilities	.....	956	+ 956
Reserves	439	1,150	+ 711
Long Term Debt	.....	12,000	+ 12,000
Preferred Stock	2,661	12,062	+ 9,401
Common Stock	2,634	2,963	+ 329
Surplus	8,756	30,632	+ 21,876
TOTAL LIABILITIES	$ 18,458	$ 75,027	+$ 56,569
WORKING CAPITAL	$ 8,771	$ 38,891	+$ 30,120
CURRENT RATIO	3.2	3.5	+ .3

LION OIL COMPANY

BUSINESS: As a combination oil and chemical company, Lion Oil has enjoyed a marked record of growth in recent years. Oil operations are well integrated and company's crude reserve position has been materially enhanced through new discoveries and developments. The chemical division occupies a commanding position in the production of anhydrous ammoniu products, chiefly used as components in the production of mixed fertilizer. As a result of constant research, other new products are being developed.

OUTLOOK: Revenues and net earnings were at all-time highs last year, reflecting additional crude oil production and substantial increases in the volume of refined products and chemicals sold. As a result, 1950 operations netted $5.98 a share compared with $3.89 in 1949. In the first quarter of 1951, per share net was $1.38 compared with $1.58 in the same 1950 quarter, the moderate decline reflecting chiefly higher taxes. For the balance of the year, operations will continue at a high level in both major divisions and with the company now fully supplying its refinery requirements, profit potentials are promising despite tax impacts and developments costs. Capital expenditures last year totaled $13.68 million of which $7.75 million was for development of additional underground resevres. At the end of 1950, the company had 680 producing wells. Gross crude oil output for the year came to 7.8 million barrels and natural gas production exceeded 1949 by 26%. Near capacity operation of enlarged chemical facilities resulted in a production increase of about 45%. New research accomplishments included development of a new weed killer for use particularly in cottonfields, and the company also manufactures other weed control oils for which there is heavy demand. In all divisions, growth potentials are impressive. Finances are sound, with cash items about equalling current liabilities.

DIVIDENDS: Total payments last year came to $1.87½ a share and dividends are now on a 50 cents quarterly basis, amply covered by prospective earnings.

MARKET ACTION: Recent price—44½ compares with a 1951 range of High—46⅛, Low—37½. Yield on the $2 dividend is 4.5%, reflecting the company's growth potential.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1950	Change
		(000 omitted)	
ASSETS			
Cash & Marketable Securities	$ 1,195	$ 10,998	+$ 9,803
Receivables, Net	723	5,574	+ 4,851
Inventories	2,824	9,806	+ 6,982
Other Current Assets	142	261	+ 119
TOTAL CURRENT ASSETS	4,884	26,639	+ 21,755
Net Property	10,974	58,582	+ 47,608
Investments	106	1,657	+ 1,551
Other Assets	432	1,078	+ 646
TOTAL ASSETS	$ 16,396	$ 87,956	+$ 71,560
LIABILITIES			
Accounts & Notes Payable	$ 1,808	$ 5,101	+$ 3,293
Accruals	1,343	368	— 975
Tax Reserve	.....	6,515	+ 6,515
TOTAL CURRENT LIABILITIES	3,151	11,984	+ 8,833
Long Term Debt	4,594	25,000	+ 20,406
Capital Stock	7,610	12,469	+ 4,859
Surplus	1,041	38,503	+ 37,462
TOTAL LIABILITIES	$ 16,396	$ 87,956	+$ 71,560
WORKING CAPITAL	$ 1,733	$ 14,655	+$ 12,922
CURRENT RATIO	1.5	2.2	+ .7

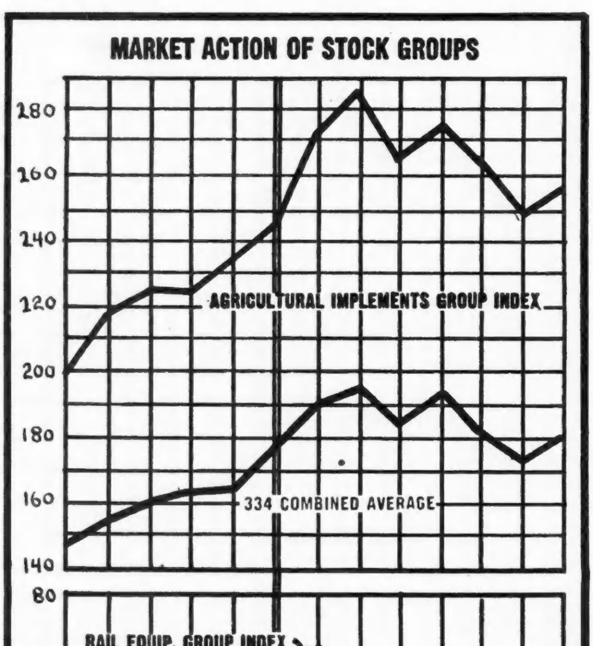
1951 Midyear Re-appraisals of Values, Earnings and Dividend Forecasts

★ ★ ★

Prospects and Ratings for Shares of Building Materials Manufacturers, Rail Equipment Builders and Farm Equipment Makers

Part II

The prospect of an end of hostilities in Korea and uncertainty as to the impacts of such an event on the economy has created a good deal of confusion in the minds of many businessmen and investors. They wonder whether defense spending, the most dynamic factor in the economy today, will continue according to schedule or whether there will be a slowdown in the rearmament tempo, or even a reduction in total outlays now contemplated. They wonder what may happen to controls, to prices and wages, whether current restrictions will be retained, relaxed or removed. And of particular importance to shareholders, they wonder about taxes—whether the stiff House-approved boosts will become law or whether final tax increases will be less.



Despite almost daily reiterations by official spokesmen that a cease-fire in Korea will make no difference to defense plans, there is widespread conviction that in the absence of a shooting war, defense will lose steam with resultant profound repercussions. Securities and commodity markets have been reflecting this thought.

To assist our readers in arriving at sound investment decisions under the conditions likely to prevail, and in realigning their policies with the selectivity dictated by varying industry prospects in the months ahead, The Magazine of Wall Street in addition to its regular coverage of important developments at this time presents its Mid-Year Security Re-appraisals and Dividend Forecasts with particular emphasis on new trends likely to shape up, including a possible temporary dip in business, a halt in inflation and a veering towards moderate deflation under the impact of new trends in consumer buying and maintenance of relatively large civilian goods production.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a "W" in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter "X." *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*

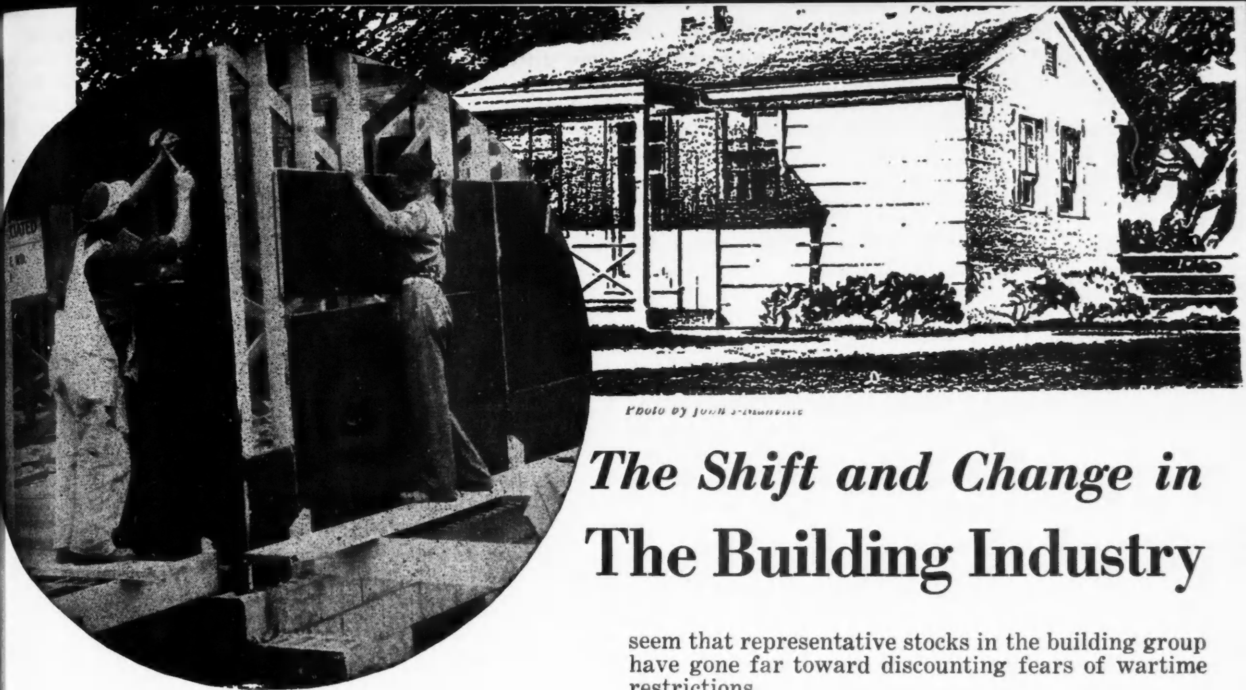


Photo by John [illegible]

The Shift and Change in The Building Industry

By STANLEY DEVLIN

In the face of all manner of handicaps, manufacturers of building supplies have fared well this year and appear destined to experience more satisfactory results in the last half of 1951 than had seemed possible three months ago. Principal reasons for the more cheerful outlook may be found in the continued powerful desire for homes, in likelihood of relaxation of credit restrictions upon the insistence of Congress, and in prospect for expansion of public housing programs for which initial financing recently was arranged.

Although easing of tension in the Far East may retard plans for industrial construction to some extent and thereby reduce prospective expenditures moderately, this same factor promises to minimize threatened shortages of critical materials that otherwise might have hampered completion of projects already under way. Moreover, plant enlargement and improvement plans are so far advanced that they are likely to be affected by a slackening in military operations. On balance, therefore, production and sales of building supplies for civilian needs may be expected to hold up better in the second half than pessimists had feared and earnings of leading manufacturers seem likely to compare rather favorably with 1950 results in spite of higher tax rates.

Reflecting greater residential construction activity than had been forecast, building supply companies have recorded unexpectedly favorable results in the first six months, as may be seen from available interim statements already issued. Relevant statistics and pertinent comment on dividend policies, etc., may be found in the accompanying tabulation. From a study of these figures the investor may see how sales volume has expanded. Although price increases have accounted in part for these gains, shipments on a tonnage basis also have greatly increased in reflecting record residential construction. Thus, with liberal dividends seemingly well protected, it would seem that representative stocks in the building group have gone far toward discounting fears of wartime restrictions.

In spite of the more reassuring outlook, however, it is a foregone conclusion that total construction expenditures this year will fall short of last year's record of about $27.7 billion. Non-residential projects are expected to run well ahead of 1950, but housing starts already are considerably under a year ago and comparisons in coming months seem likely to be less favorable. Nevertheless, indications now point to about 900,000 new homes for 1951—a surprisingly good showing. This means a decline of about 35 to 40 per cent in the number of new houses started this year.

The comparatively large number of housing starts this year is explained partly by the fact that many had been arranged prior to imposition of credit restrictions last October. Another stimulating influence came from an abundance of essential materials. Thus with adequate funds available to finance operations and with supplies flowing freely from manufacturers, builders felt confident of undertaking new projects. Operations were encouraged also by a powerful demand for desirable living quarters. Not even rent controls which have curbed an economic need for houses could completely deter purchases of new homes. This pressure may be attributed to an exceptionally high rate of family formations.

Great Need for Housing

Despite the fact that the spurt in residential construction since the war has swollen the nation's census of houses to approximately 39.4 million from about 29.7 million in 1940, actual need for homes still is almost as urgent as it was ten or twelve years ago because new families have been formed almost as rapidly as houses have been built. It is a well known fact that depressed business conditions in the 1930's had compelled many families to "double up" and that at the beginning of this country's rearmament program in 1940, which spurred national income, the number of potential home buyers was exceptionally large. The fact that this want still is far from satis-

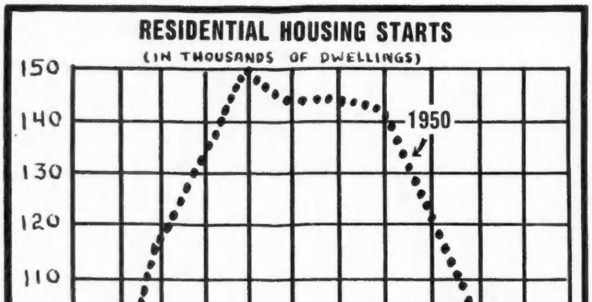
fied is reassuring for building supply companies, for it suggests that so long as business conditions are favorable there will be a sizeable potential for new houses.

In appraising prospects for companies in this industry, however, it is well for investors to bear in mind that the market is looking to the future in evaluating earning power, and this fact explains the relatively low price-earnings ratios for representative stocks. In other words, investors are expressing their doubt over probable continuance of such a high rate of building as has been experienced in the last three years. Records going back over the last generation suggest that there is basis for questioning prolongation of construction volume at an average annual rate of a million new homes. Although formation of new families at an indicated annual rate of about 700,000 would suggest a need for new homes approaching a million a year (allowing for fires, obsolescence, etc.), authorities seem to feel financial conditions may not always be favorable.

Government's Financing Role

Along this line, it should be pointed out that substantially all financing of new homes is based on mortgage credit arranged through insurance companies, building and loan associations, savings banks and similar institutions. Loans provided by these sources of capital have been encouraged by insurance arrangements under provisions of the Federal Housing Administration or have been insured by the Veterans Administration so that mortgages are freely issued. It is estimated that probably half of new home purchases in 1950 were financed by one or the other of these government agencies. Hence, in pondering the outlook for housing construction it is important to determine the extent to which financing may be sponsored by the FHA or by the VA.

Horeover, the Federal Reserve Board has stepped in to stiffen the terms of financing. Regulations issued last October and amended early this year fix the amount of down payments on new purchases. By raising these requirements, financing has been made more difficult. Boosting of rates has restricted the amount of capital available for lending by institutions. Thus it has become evident that funds advanced by orthodox lending institutions will be limited and that, since cash buyers are relatively few in number, it seems logical to think that purchases of new homes will begin to slacken. Thus residential construction, which probably has accounted for slightly less than half of total volume in the first six months of the year, may recede.



While new housing may be expected to drop substantially from corresponding months of 1950, repair and renovation projects are expected to increase. Minor jobs have been put off except in cases where urgently needed either for lack of materials or because labor was unavailable. Now that contracts for new homes are declining, contractors are more willing to discuss renovation problems. Thus, a sustaining influence seems likely to develop which may avert a serious drop in consumer demand for lumber, wallboard, cement, roofing, siding and insulation.

This change in the character of consumer interest suggests that manufacturers of supplies designed primarily for the replacement market — especially roofing and paints — may fare well in coming months. According to trade authorities, the potential market for materials used in redecorating interiors never was larger than this year because householders have deferred refurbishing homes in recent years in hope of a decline in costs.

In appraising stocks representing the building industry one of the important characteristics to remember, as pointed out previously, is the absence of a dependable correlation between expenditures on building construction and changes in national income. Activity in real estate tends to fluctuate in broader cycles. Demand for houses is stimulated, of course, by marriage trends, that is, formation of new families, but more importantly by general credit conditions over which government agencies have primary control. And this important factor is determined to a great extent by basic business conditions, which may be affected by wars or preparations for international difficulties.

Cycles in Building Operations

Real estate people have come to talk of the 18-year cycle in building operations. This view probably had its foundation in waves of population growth that may have originated from wars in ages past. In other words, recurrent periods of active formation of new families—which logically might be repeated approximately every 18 years—have contributed to so-called building booms. On this basis, special activity this year would have been a reasonable expectation, for in the recovery from depressed conditions in 1930-32 the nation experienced a mild spurt in home building in 1933. However, recurrence of the cycle came somewhat ahead of time in last year's remarkable expansion, which was spurred by easy credit made available by the Veterans Administration.

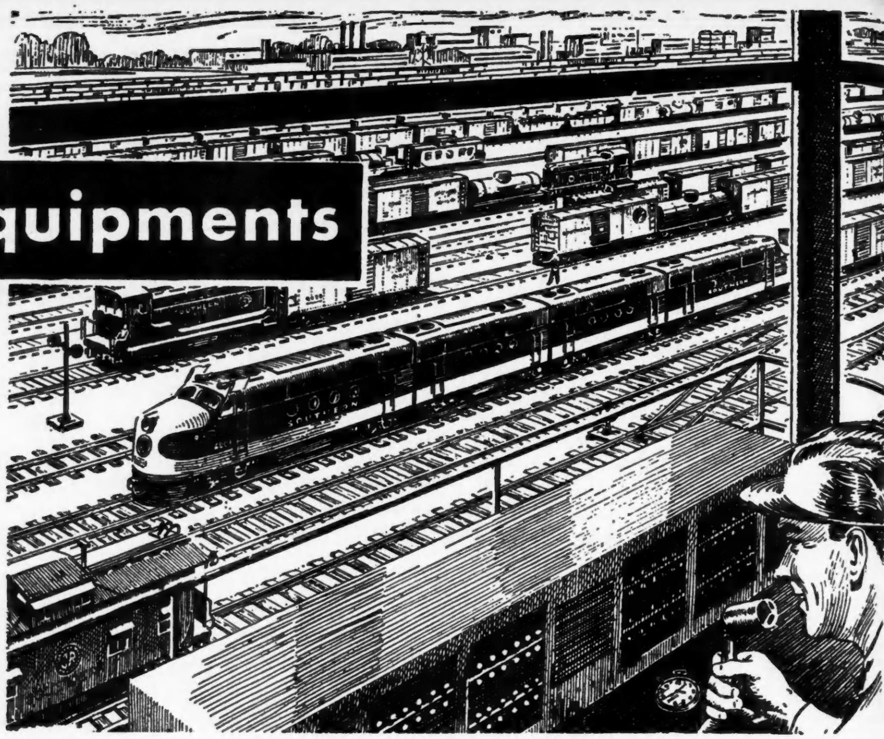
Importance of building in the over-all economy has much to do with determining the degree of prosperity experienced. Construction relies heavily on such industries as lumber, cement, brick, heating and plumbing, paint, gypsum, window glass and numerous other products. Railroad freight is affected in considerable degree by building trends. Hence, aside from wages paid to (*Please turn to page* 524)

Position of Leading Building Material Stocks

	1951 Interim Reports Net Sales (Mil.)	1951 Interim Reports Net Margin	1951 Interim Reports Net Per Share	1950 Net Sales (Mil.)	1950 Net Margin	1950 Net Per Share	Recent Price	Div. 1950	Div. Yield	Investment Rating	COMMENTS
Alpha Portland Cem. X	$ 24.0[9]	14.7%	$6.01[9]	$ 21.5	15.2%	$5.59	35⅛	$3.00	8.5%	B2	Expansion in production facilities, along with good industrial demand, encourages hope of liberal year-end if earnings approach level of 1950.
Amer. Rad. & S.S: X	161.3[14]	7.5	1.20[14]	284.8	10.0	2.80	15¼	1.50	9.8	C+1	Good first half showing, bolstered by larger foreign dividends, points to earnings near 1950 peak and suggests repetition of generous extra dividend.
Bruce, E. L.	24.5[10]	6.9	6.39[10]	23.7[1]	6.0	4.81[1]	22	2.00	9.1	C+2	Some slackening in sales volume indicated in coming fiscal year, but housing projects and military orders are promising. Dividend of $2 well protected.
Celotex	27.8[11]	5.7	1.62[11]	48.7[2]	6.1	3.03[2]	16⅛	1.00	6.2	B2	Rising volume of remodeling points to favorable 1951 earnings. Low labor and materials costs reassuring. Maintenance of $1 dividend rate regarded as likely.
Certain-Teed Products	33.1[14]	8.4	1.71[14]	55.9	11.4	3.92	16⅞	1.50	8.9	C+1	Enlarged production facilities and continued good residential demand for wallboard suggest good earnings showing and maintenance of dividends at $1.50 rate.
Crane Co.	67.8[15]	......	......	220.0	7.1	6.48	32⅝	2.60	7.9	B2	Despite slackening in demand for valves, volume of industrial products well sustained and earnings may decline moderately from 1950 peak. Extra dividend probable.
Devoe & Raynolds "A"	25.3[12]	4.2	.93[12]	47.2[3]	5.8	4.83[3]	23⅝	2.27	9.6	B2	Sales well sustained this year despite prospect of reduced voume in last half. Earnings may recede slightly from 1950, but regular $2 dividend seems secured.
Flintkote	46.9[16]	6.7	2.35[16]	83.8	9.2	5.83	28⅜	3.00	10.6	B+2	High proportion of output concentrated in roofing, shingles and sidings that go into repair work. Negligible dip in sales foreseen. Year-end extra probable.
Holland Furnace	......	......	.04[14]	36.6	8.6	3.53	23⅜	2.75	11.6	C+3	Operations hampered slightly by credit controls, but volume may not be seriously reduced. Earnings indicated moderately lower and $2.75 dividend seemingly secure.
Johns-Manville X	120.3[14]	10.4	3.98[14]	203.2	11.2	7.22	61¼	3.50	5.7	A2	Continued improvement in efficiency and research bolsters competitive position. Earnings well sustained by replacement sales. Dividend likely at last year's rate.
Lehigh Portland Cem. X	23.9[14]	11.0	1.38[14]	44.3	14.8	3.45	22¾	1.25	5.5	B1	Enlargement of output and strong demand factor in company's territory point to earnings comparing favorably with 1950. Extra due to bolster $1.20 dividend rate.
Lone Star Cement X	14.9[15]	11.2	1.24[14]	64.3	15.5	3.52	24	1.66	6.9	B1	Output of domestic and foreign plants being enlarged to fill strong demand, indicating favorable earnings comparison. Dividend increase later is reasonable expectation.
Masonite	26.3[13]	7.6	1.49[13]	38.5[4]	18.0	5.15[4]	30	3.00	10.0	B3	Decline in earnings for fiscal year ending this month likely as result of prolonged labor dispute, but strong trade position and growth factor in hardwood reassuring.
National Gypsum	45.5[14]	8.6	1.71[14]	75.9	12.2	4.20	18¼	1.50	8.2	C+	Aggressive expansion enabled company to strengthen competitive position. Large replacement market should aid earnings. More liberal dividend a reasonable hope.
Otis Elevator	18.1[15]	11.4	1.04[15]	86.0	12.2	5.19	36⅝	2.75	7.5	B2	Need for modernization of office buildings and industrial plants provides strong sales outlook. Earnings may not decline much this year. Dividend at $2.50 foreseen.
Penna-Dixie Cement	11.8[14]	11.5	2.26[14]	22.7	14.1	5.34	23⅝	2.00	8.4	C2	Prospect of enlarged road construction should aid earnings, but heavier tax burdens may reduce net slightly below 1950. Extra dividend due at year-end.
Pittsburgh Plate Glass	103.7[15]	10.3	1.19[15]	337.1	11.3	4.64	45½	2.50	5.4	A2	Dip in sales of plate glass to auto industry may offset increase in paint volume. Earnings may fall slightly, but extra dividend slated to increase $1.40 rate.
Pratt & Lambert	4.0[15]	......	......	[5]	......	5.94	40¾	3.00	7.3	B+2	Promise of excellent volume of paint sales should offset heavier tax burden and permit earnings to compare favoragle with 1950. Dividend at $3 rate seems amply protected.
Ruberoid	32.6[14]	5.7	3.51[14]	61.9	8.2	9.64	52	3.50[7]	6.7	B+	Bright outlook for replacement sales and continued gains in production efficiency should sustain earning power. Extra dividend in stock to supplement $3.50 rate.
U. S. Gypsum X	48.2[15]	11.8	3.49[15]	174.7	15.6	16.70	113	10.00	8.8	A2	Despite likelihood of moderate drop in net profit due to tax boost, earnings indicated at historical high level and extra dividends expected to fatten last half payments.
Walworth	28.3[14]	5.8	1.22[14]	34.8	4.9	1.27	9¼	.65	7.0	C3	Keen competition that restricted earnings has placed company at competitive disadvantage and recovery likely to be slow. Little improvement seems in prospect this year.
Yale & Towne	22.7[15]	4.2	1.86[15]	65.1[6]	4.1	5.30[6]	44½	2.00[8]	4.5	B1	Strong demand for material handling equipment in industrial plants offsets slackening in hardware. Operating efficiency improving. Extra to supplement $2 dividend is possible.

(d)—Deficit.
[1]—Year ended June 30, 1950.
[2]—Year ended Oct. 31, 1950.
[3]—Year ended Nov. 30, 1950.
[4]—Year ended August 31, 1950.
[5]—Sales not available.
[6]—Year ended Dec. 3, 1950.
[7]—Plus stock.
[8]—1951 rate.
[9]—12 months ended March 31, 1951.
[10]—9 months ended March 31, 1951.
[11]—6 months ended April 30, 1951.
[12]—6 months ended May 31, 1951.
[13]—9 months ended May 31, 1951.
[14]—First half 1951.
[15]—First Quarter 1951.
[16]—28 weeks.

WHAT'S . . . AHEAD FOR RAIL Equipments



By PHILLIP DOBBS

Reflecting the full impact of the huge armament production program, railroad equipment builders are experiencing one of the best years in a decade. Demand for all kinds of new facilities has been spurred not only by actual need to transport a sharply increased volume of traffic, but also by tax considerations. Inasmuch as a considerable part of enlargement of operations may be traced to the national defense effort, railroad managements have sought certificates of necessity enabling them to obtain benefits of accelerated depreciation. Such arrangements permit a measure of tax savings in the current period of prosperity.

Promise of a cessation of hostilities in Korea suggests that orders for railroad equipment may slacken. Such a turn of events would be of little significance, however, for that industry has probably the largest total of unfilled orders in its history and generally speaking could not promise deliveries for more than a year hence. As a matter of fact, any slackening in armament production might be of assistance in providing more abundant raw materials. There is little doubt but that over the near term leading factors in this industry are destined to operate at a high rate of capacity.

In addition to regular lines, many companies in this field have taken on war orders—such as for tanks, gun carriages and components for guns and military vehicles. Although this business is less profitable than freight cars, Diesel locomotives or track equipment, indications point to prolongation of orders of this type for some time to come and they tend to assure utilization of manufacturing facilities that might otherwise be idled as orders for railroads lapse.

While prospects for the immediate future appear promising, it would be unwise to ignore the industry's characteristic "feast-or-famine" aspects. Because railroads have such substantial fixed charges, managements are compelled to cut back equipment orders to the bone at the first signs of a downtrend in freight shipments. Accordingly, except for those companies manufacturing supplies used in maintenance work, the industry must be prepared for sudden lulls that usually mean unprofitable operations. This condition naturally contributes to a high degree of volatility for most rail equipment stocks. A comparatively few stressing replacement sales have gained a measure of investment standing.

Indicative of expansion in the market for railroad supplies is the trend of freight tariffs. Transportation authorities estimate that gross revenues may jump almost $1 billion this year, partly as a consequence of increased rates, and that this trend may support continued substantial purchases of supplies. On basis of orders placed in recent months actual acquisitions of new equipment this year are expected to compare favorably with the $778 million delivered in 1950. If purchases should continue at the rate reached in the first six months, shipments for the year may approximate $1 billion for a new high record.

Purchases of materials, including rolling stock parts, rails, track accessories, rose sharply in the first six months and indications point to a possible total for the year of $1.7 billion or more. Hence, all indications point to total purchases of new equipment and supplies well in excess of the $2.3 billion record established in 1948. In fact, unless there should be an unexpected curtailment in armament orders and cancellations on war work, it seems possible that railroad purchases this year may approach $3 billion. Such a showing would be equivalent to an increase of about 50 per cent over the annual postwar average.

Heavy Unfilled Orders

Thus far there has been little convincing evidence of a reversal in the trend. Thus, although orders for freight cars—major segment of the equipment business—declined in May, there was a sharp rebound in June. Orders showed signs of dipping again in July. Order placements in June came to 6,793, or an

annual rate of more than 80,000, compared with 4,919 in May. Unfilled orders had increased to 147,725 on July 1 this year from slightly more than 40,000 a year earlier. Industry authorities consider an annual volume of 50,000 freight cars a normal expectation to care for replacement of worn out cars. During May and June, production reached a figure of about 10,000 cars which the government defense agencies had set as their mark. However, during July, strikes in seven plants of four different car builders had brought production down to probably 7,000 cars. This, of course, is a temporary situation.

Shipments of new freight cars have increased gradually this year to approximately the industry's goal of 10,000 monthly, and if steel supplies are adequate in the next few months shipments may exceed this rate. Accordingly, if labor troubles are soon ended, deliveries to the carriers this year show promise of running comfortably above 100,000 cars, or about double a normal year's volume.

Illustrative of what has been taking place in a shift from steam to Diesel locomotives, it is interesting to note that of the record number of 1,839 locomotives on order in June, (*Please turn to page* 527)

Position of Leading Rail Equipment Companies

	1951 Interim Reports			1950							
	Net Sales (Mil.)	Net Margin	Net Per Share	Net Sales (Mil.)	Net Margin	Net Per Share	Div. 1950	Recent Price	Div. Yield	Investment Rating	COMMENTS
American Brake Shoe........	$ 77.6[3]	4.9%	$3.09[3]	$106.5	5.5%	$4.70	$3.00	36⅜	8.2%	B+1	High rate of operations foreshadowed for remainder of year, raising hope of extra dividend despite possibility of lower earnings due to higher taxes.
Amer. Car & Foundry	119.6[4]	2.2	1.08[4]	147.4[1]	.3	(d)2.65[1]	2.00[2]	30⅝	6.5	C+2	Sharp rise in order backlog and promise of more abundant raw materials should sustain earnings sufficient to warrant maintenance of dividends.
American Locomotive	81.0[3]	3.1	1.02[3]	138.8	4.5	2.78	1.50	17⅞	8.4	C+1	Good progress in Diesel engine output and prospect of improved earnings on huge tank orders raise hope of better earnings and possibly increase in dividend.
Baldwin-Lima-Hamilton	98.1[3]	2.0	.42[3]	94.3	4.7	1.02	.60[2]	10⅝	5.7	C+1	Diversification gained through consolidation expected to help stabilize earnings. Increased volume may boost profit and raise hope of extra dividend.
Budd Co.	77.4[5]	4.8	1.04[5]	290.4	6.3	5.10	1.60[2]	15⅝	10.3	C+2	Decline in automotive orders should be offset by railroad business and armament contracts. Earnings may sag this year but not enough to imperil $1.60 dividend.
General Amer. Transp......... X	......	....	2.70[3]	87.6	6.6	4 95	3.00	49⅝	6.0	B+1	Strong demand for tank cars and other specialized equipment points to improvement in earnings to perhaps $6 a share.
Gen. Railway Signal	......	....	1.47[3]	13.6	11.0	4.18	2.25	23	9.7	B+1	With preferred redeemed, common gains prestige. Strong trend toward wider use of mechanical signals as labor-saving devices favorable for earnings even in business declines.
New York Air Brake............	14.2[3]	7.6	2.08[3]	16.2	9.4	2.98	1.25	20	6.2	B+1	Liberal extra would seem logical. Large volume of regular business and increasing armament business point to rise in net profit to new high and may warrant extra dividend at year-end.
Poor & Co. "B"..................	8.4[5]	5.5	1.06[5]	25.9	5.5	3.08	1.50	16⅝	9.0	C+2	Prospect for relatively high maintenance work is favorable. Heavy shipments indicate increase in earnings this year and possibly larger dividend than year ago.
Pressed Steel Car...............	......	....	.88[3]	16.8	(d)5.3	(d)1.03	......	11¾	....	C+2	Sizeable order backlog indicates profitable operations well into 1952, but scarcely raises hope of early dividend restoration. Prospects in armament work uncertain.
Pullman X	108.7[3]	4.0	2.01[3]	170.5	5.7	4.49	4.00	44¼	9.0	B+1	Sharp rise in production of freight cars and improvement in operations of Kellogg division point to another earnings boost. Rise in regular dividend is significant.
Symington-Gould	5.8[5]	4.2	.25[5]	16.4	8.1	1.32	.75	7½	10.0	C+2	Expansion in regular lines of couplers and satisfactory results with gasoline pump venture raise hope of rise in net profit. Dividend payments irregular.
Union Tank Car.................	5.6[5]	....	......	18.6	22.5	3.90	2.60	37½	6.9	B+2	Easing of war tempo might mean slackening in shipment of petroleum in tank cars. Earnings generally stable and adequate to protect regular $2.60 annual dividend.
Westinghouse Air Brake...... X	......	....	1.91[3]	62.0	18.1	3.55	2.50	27⅛	9.2	A+1	Operating economies anticipated in consolidation of subsidiaries which may lift earnings above 1950 results. Maintenance of indicated $1.60 rate assured.
Youngstown Steel Door	......	....	1.41[3]	14.9	9.7	2.19	1.50	15¾	9.6	C+1	Huge freight car program indicates record earnings and encourages hope of extra dividend. Expansion of shop building by roads favorable long-term factor.

(d)—Deficit.
1—Year ended April 30, 1950.
2—1951 rate.
3—First half 1951.
4—Year ended April 30, 1951.
5—First Quarter 1951.

. . . The Laggard . . .
FARM EQUIPMENTS

By FRANK R. WALTERS

Sales of farm machinery are traditionally geared to farm income. With current farm income running about 15% over last year, the farm equipment companies continue to prosper, as most of them have throughout the postwar period. Some of the larger companies, especially International Harvester and Allis Chalmers, are beginning to take on defense work, but profit margins are usually lower on this type of work. Most of the farm equipment companies have fiscal years ending in October; while reports for the first half of this fiscal year have been generally excellent, the second half will feel the full brunt of higher Federal taxes and economic dislocations, and hence are not expected to make as good a showing. Shortages of copper, steel and other metals may begin to affect operations from here on, although the industry in general enjoys good priority ratings.

Profit margins may be further reduced by higher labor costs, as well as the 3% price roll-backs of May 28, 1951. Hence, despite plentiful orders and continued high sales volume, net earnings may deteriorate slightly for the year as a whole. Dividend payments of most farm equipment companies have been irregular in recent years, with extras interspersed with regular payments, or substantial year-end "specials." Some of these extra payments may be reduced this fall, though most stock yields (at present price levels) will remain excellent.

The industry has a moderately favorable position with respect to excess profits taxes, since postwar earnings have been large, establishing a good EPT base. In the event of all-out-war the industry would, of course, be more largely diverted to defense activity, and profit margins might shrink accordingly, if World War II experience is any guide. Export business is not an important factor, having averaged about 13% of sales in the postwar period. However, such business has doubtless been stimulated by U. S. Government expenditures diverted to military purposes, so that there may be some resulting decline in exports of farm equipment.

With a continuation of the present defense program as planned by the Administration, the outlook for the farm equipment companies should remain generally favorable. The current crop outlook is excellent, though hurt by recent flood damage, and the farmers are one of the most favored groups in Washington politics. There seems little danger of any severe rollbacks in farm prices other than on cattle and beef, and even on these items, the Administration has received recent setbacks in the new controls bill. Moreoper, the farmers are financially well entrenched by nearly a decade of prosperity, and most of them can continue to buy whatever equipment is needed. Installment sales have declined in the postwar period, with about three-quarters of sales on a cash or a trade-in basis.

Bottle-Necks in Industry

During the earlier years of World War II, Washington cut back the production of farm implements quite sharply with the result that farmers were handicapped both by inadequate machinery, and by the loss of some 5,000,000 farm workers. Had it not been for unusually favorable weather conditions, the results might have been disastrous. Profiting from this experience, the farm equiqment industry is now receiving relatively good treatment in Washington. Some production cuts were made temporarily in April and May, but the industry was given a de-

tense order ("DO") rating in June, enabling it (in theory) to obtain 92% of the steel, copper, aluminum, zinc, and component parts needed.

However, even though favored by NPA, the industry is being slowed by the occasional "bottlenecks" which seem unavoidable under present conditions. Thus it was reported a few weeks ago that Massey-Harris had 700 tractors standing idle for lack of tires, and International Harvester had to cut production of 16 major implements because of a shortage of bar steel. The Controlled Materials Plan which became effective July 1 is expected to improve conditions somewhat, although it may take some months to get the plan into full operation. The Agricultural Department is said to be worried about delayed output of cotton pickers, sugar cane pickers, sprayers and dusters, etc., which will be needed because of the impending labor shortage.

Farm equipment stocks seem to be a "typical" stock market group. Thus, The Magazine of Wall Street average of four agricultural machinery companies has in general followed the trend of the combined 334 Stock Average. In the early 1930's, the farm equipments made a much poorer showing than the industrials in general, due to the greatly weakened financial position of the farmers but in subsequent years their action has generally been similar. In recent months, the group appears to have followed the trend of the motor stocks somewhat, though making a somewhat poorer showing. Obviously, the market has reflected fears that earnings will be affected by excess profits taxes, material shortages, confusion over the Controlled Materials Plan, smaller profit margins on defense business, etc.

However, the market may not have given enough credit to the strong position of the industry with respect to priorities. The automobile companies may be forced to cut down sharply on production of autos and to substitute less profitable tool, aviation and miscellaneous defense work; but the farm equipment companies, because of the indispensable character of their output (as indicated by the lessons of World War II) will doubtless be permitted to devote their major efforts to regular business, adding defense production only as they have available facilities and manpower. Thus the group may now be unduly depressed market-wise from their 1951 highs.

Comments follow on some of the larger farm equipment companies, taking them in approximate order of size:

International Harvester is the leader, with sales approaching the billion dollar level. The company maintains a good financial position, although as of October 31, 1950 the current ratio was only 2.7 to 1—lower than during the previous decade. Cash items of $115 million compared with inventories of $219 million and current liabilities of $135 million. Dividend payments (continuous since 1918) have been conservative, the payout in recent years averaging only about 30-40%. The capitalization includes a moderate-sized debt and a fair-sized issue of non-callable $7 preferred (*Please turn to page* 524)

Position of Leading Farm Equipment Stocks

	1951 Interim Reports			1950							
	Net Sales (Mil.)	Net Margin	Net Per Share	Net Sales (Mil.)	Net Margin	Net Per Share	Recent Price	Div. 1950	Div. Yield	Investment Rating	COMMENTS
Allis-Chalmers	$87.3[6]	5.2%	$ 1.70[6]	$343.6	6.7%	$8.72	42¾	$3.25	8.0%	B2	While first quarter earnings showed a small gain over last year, and demand for farm and electrical equipment is improving, higher taxes and wages may hold earnings below last year's $8.72. The 75 cent quarterly dividend should continue.
Case, J. I.	84.0[4]	....	......	132.6[1]	11.4	15.42[1]	66½	7.80[2]	11.7	B2	Sales (including some defense work) should remain large, but net earnings may recede from high levels of 1949-50. Regular $3 dividend well protected, but year-end extra may be less liberal.
Deere & Co. W	184.2[4]	8.3	4.72[4]	336.4[1]	12.7	13.51[1]	63	5.50	8.7	B2	Earnings in January quarter were well below last year, but April quarter ($3.87) was equal to last year; fiscal year (October) earnings might approximate $10. Dividend payments irregular, but total payments may approach last year's $5.50.
Gleaner Harvester	4.3[5]	17.6	1.89[5]	4.5	17.3	1.95	19¾	2.00	10.2	C2	Reported $1.89 for nine months ended June vs. $1.35 previously; fourth quarter should also make a good showing. New 14-foot combine an important factor. $2 dividend seems assured, over near-term.
Internat'l Harvester W	611.3[4]	5.6	2.46[4]	942.6[1]	7.0	4.72[1]	31½	2.45[3]	7.8	B2	Postwar gains were well maintained in first half of current year (ending October). 50c quarterly dividend may be supplemented by occasional extras. With increasing proportion of low-profit defense business, however, earnings may work lower in 1952.
Minneapolis Moline[7]	36.8[4]	6.2	2.20[4]	79.1[1]	9.2	8.41[1]	19⅞	1.60[3]	8.1	C3	Earnings for October year are expected to drop below last year's $8.03, which was based on old capitalization before merger with Avery. The 40-cent quarterly dividend rate should continue.
Myers (F. E.) & Bros.	7.6[4]	10.3	3.92[4]	11.9[1]	12.5	7.46[1]	58	4.50	7.7	B2	This specialist in pumps, sprayers, etc. has a record of steady growth. Earnings for October year may drop moderately below last year's $7.46 due to higher taxes, but total dividends should be maintained around the $4-$4.50 level.
Oliver Corp.	54.8[4]	5.7	3.70[4]	98.8[1]	6.3	7.31[1]	27¾	2.40[3]	8.6	C1	Earnings in first half of October year were $3.70 vs. $2.46, so that despite tax inroads year's total may well exceed last year's $7.31. With a sound cash position, the $2.40 dividend should be maintained.

[1] Year ended Oct. 31, 1950.
[2] Plus stock.
[3] 1951 rate.
[4] 6 mos. ended April 30, 1951.
[5] 9 mos. ended June 30, 1951.
[6] 3 mos. ended March 31, 1951.
[7] Avery (B. F.) & Sons merged into Minneapolis Moline Co. Mar. 1, 1951.

FOR PROFIT AND INCOME

Selectivity

In talking about the selectivity of the market, it can make a considerable difference whether you measure stock-group action in terms of recent performance or long-term status. Moreover, in some instances wide divergencies are concealed by averaging prices in arriving at a stock-group index. Both points are illustrated by the finance stocks. As a group, they recently rose to a new 1951 high. But this high is nearly 12% under their 1950 pre-Korean-war high; and only 18% above their average 1935-1939 level, whereas industrial stocks, in composite, now stand nearly 95% above their five-year prewar average. Again, the companies in this group fall into two sub-groups: installment finance companies and small loan companies. The latter, by a modest rise, have accounted for the group's new 1951 high. In terms of earnings and dividends for an extended forward period, their prospect is superior to that of the installment finance companies. The latter stocks are relatively more depressed in their long-term range than are small loan company stocks such as Beneficial Loan and Household Finance. These are both good defensive issues, offering generous yields.

Stocks

All of this is by way of emphasizing that "group action" has most significance where there is a fair degree of uniformity in at least the direction of stock-price movement. This is true, for example, of aircraft, air lines, chemicals, copper, oil, paper, rail equipment, steel, tires, tobaccos and a number of others. It need hardly be said that thorough appraisal of individual stocks is of primary importance, discriminating study of group tendencies secondary thereto.

Extremes

Wide sub-group variations are concealed if you lump together "building materials" or "foods" or "retail trade" or "textiles". In the building field, stocks of makers of heating equipment and sanitary ware are depressed relative to prewar, those of paint makers relatively far advanced. Variations are fairly wide among such other sub-groups as cement, roofing and wallboard, plywood makers, and contract construction. "Foods" run the gamut from the radically speculative meat packing stocks to investment-grade dairy products stocks; and there are a number of other sub-groups of varying merit. The "retail trade" group embraces such assorted lines as department stores, mail-order companies, variety chains, grocery chains, drug-store chains, restaurant chains, auto-supply stores, etc. In the "textile group" you have the relatively backward woolen goods division at one extreme, the high-flying rayon division at the other, the latter sub-group standing some 500% above its prewar average level (1935-1939).

Diversification

With so many companies emphasizing diversification, the classification of stocks by industries is becoming more difficult, arbitrary and meaningless—again underlining the necessity of making

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
Acme Steel Co.	6 mos. June 30	$2.14	$1.44
American Cyanamid Co.	6 mos. June 30	6.14	3.67
Freeport Sulphur	June 30 Quar.	2.14	2.08
Reynolds Metals	June 30 Quar.	3.12	1.64
Square "D" Co.	6 mos. June 30	2.28	1.26
Texas Pacific Coal & Oil	June 30 Quar.	.98	.80
Wheeling Steel Corp.	June 30 Quar.	3.02	2.80
White Motor Co.	6 mos. June 30	6.25	4.59
American Steel Foundries	9 mos. June 30	4.71	1.48
Bohn Aluminum & Brass	June 30 Quar.	1.53	.84

individual appraisals and avoiding over-generalization. The examples are numerous. To mention only two: Pittsburgh Plate Glass is generally classed as a glass maker, but glass accounts only for about half of its business, paint products and chemicals for the balance. Glidden, once regarded as a paint maker, is now almost impossible to classify, for its activities include, in addition to paints and varnishes, chemicals and pigments, food products, metals and minerals, vegetable oils, soybean products, feed-mill products and naval stores. Thus, Glidden is pretty much in the what-you-may-call-it business. Speaking of diversification; everybody and his brother seems bent on getting into the chemical business or, if already in it, on expanding further. It is hard to believe that there can be rich long-term rewards for all unless chemicals are going to take over our daily lives almost completely.

New Highs

In the case of reasonably homogeneous stock groups, recent new highs for 1951 or longer include chemicals, ethical drugs, proprietary drugs, glass containers, fertilizers, oils and tires. Among individual stocks, new 1951 highs and lows continue to be fairly well balanced in total numbers, both too numerous for citations here.

Rails

There has been some revival of speculative interest in rail stocks. Traders probably figure that the technical position is good enough to facilitate a rally, the group having long been out of favor; that the fairly imminent ICC decision on freight rates might be a stimulant; and that, given an appreciable boost in rates, year-to-year earnings comparisons will be more favorable in the late months of the year. However, a boost in regular corporate taxes, applicable either to the second half or the last quarter, would work the other way. We surmise that traders will be quick to take profits if the rate decision is particularly favorable, even quicker to unload if it should be disappointing.

Pattern

Rails, at this writing, have bettered their early-June rally by a modest degree, with this average standing about 8 points above its 1951 low to date, but nearly 10 points under its bull-market top of last February. This column would not bet a dime that the latter level can be surpassed on any extension of the July "summer rally". At this moment, on the other hand, the Dow industrial average his rallied to within roughly 4 points of its major high of early May. Should it better the latter in any degree—a possibility, but one on which this column also would not bank—without a rail "confirmation", the Dow-Theory followers would remain "confused", as they are more often than not.

Wrong

Utilities and industrial income-stocks have been faring better than in some time on the theory that the coming tax boost will not be as tough as had been feared earlier. Simultaneously, a sizeable recovery developed in the war-stock section of the list, facilitated by President Truman's forecast, in the Mid-Year Economic Report, that security spending (arms and foreign military aid) would reach an annual rate of $65 billion by next July. Well, you cannot have it both ways. The President's projections imply something like a $90-billion budget to be submitted to Congress next January. Such prodigious spending is incompatible with moderation in taxes, and with long-run investment confidence in stable-income stocks.

Dividends

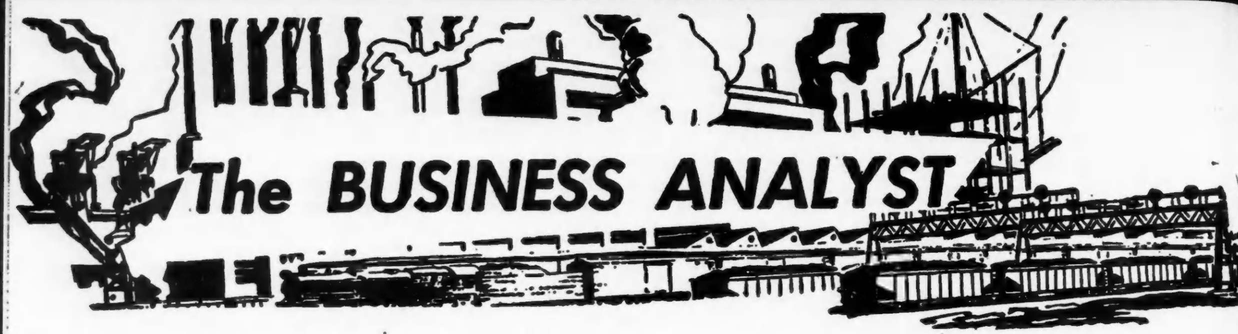
Of the 1,049 common stocks listed on the New York Stock Exchange, dividends were paid on 922 in the first half of 1951. Total payments thereon were nearly $2.5 billion, a new peak and 17.3% more than in the first half of last year. It was the ninth successive first half in which the year-ago dividend total was exceeded. The second half will be a different story, for the comparison will be with sharply rising year-ago dividends; and the aggregate of year-end extras is likely to be materially under that of 1950.

Popularity

In a longer-term sense, the popularity of high-grade defensive stocks and of growth stocks, in contrast with run-of-the-mill cyclical-type stocks, is well founded. A number of good issues of both classes have been cited in this column heretofore, as well as elsewhere in the Magazine; and market results therefrom to date have been well above average. However, a word of warning is in order: the long-term time factor needs more emphasis than some investors are currently giving it. The performance of defensive stocks and growth stocks cannot indefinitely continue to be as strong as it has recently been, despite the significant new demand on the part of accumulating institutional funds and the apparently greater tendency of the investing public to buy and "stay with" favored issues. We could cite numerous defensive stocks and growth stocks whose prices have been at least halved in past bear markets—and bear markets have not been abolished. Probably such issues are more strongly held now than ever before. Probably this implies greater resistance to both corrective and cyclical declines than in the past. But it does not preclude very substantial sell-offs from time to time even in the most popular issues, for they can never enjoy a permanent one-way market.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

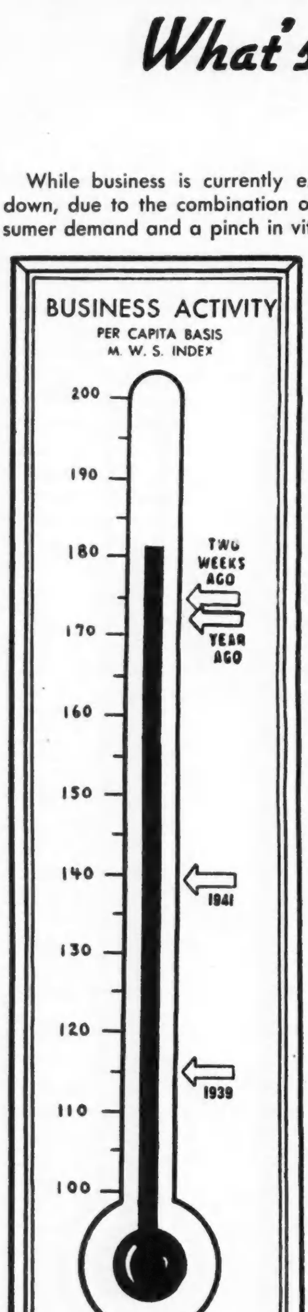
		1951	1950
Atlantic Coast Line R.R.	6 mos. June 30	$6.03	$7.96
Bigelow-Sanford Carpet Co.	June 30 Quar.	.66	1.14
Erie Railroad	6 mos. June 30	1.64	1.73
Falstaff Brewing Corp.	June 30 Quar.	.36	.57
General Time Corp.	12 weeks June 16	1.33	1.90
Illinois Central R.R.	6 mos. June 30	4.37	5.28
Inland Steel	June 30 Quar.	2.02	2.13
Lees, James, & Sons	6 mos. June 30	1.17	2.82
Victor Chemical Works	June 30 Quar.	.42	.54
Bridgeport Brass Co.	June 30 Quar.	.93	1.15



What's Ahead for Business?

By E. K. A.

While business is currently experiencing a moderate letdown, due to the combination of seasonal factors, slow consumer demand and a pinch in vital materials, the expectation is that the general level of business during the rest of the year will remain high with a new upsurge likely during the final quarter. It is not difficult to find reasons for such a forecast, foremost the mounting defense spending as envisaged under present schedules. It has become sufficiently clear, that peace or war in Korea will not greatly affect this trend even though a moderate slowing in tempo is by no means impossible. But the fact remains that the Administration seems utterly determined to keep it up or even boost it, both for security reasons and to prevent anything like a heftier dose of deflation. Nevertheless, the economy will not be without its trouble spots.



Present "problem" industries, chiefly among consumer durable goods, will continue to have hard going. Inventories are high and consumer demand is slow. Hence the latest cutback ordered by the NPA on critical metals actually comes as a relief for many manufacturers who have been having considerable difficulty in moving their goods. Nor will, in this column's view, the latest relaxation of credit restrictions make much of a difference. We don't think it will greatly stimulate lagging hard goods demands; a potentially at least equally potent stimulant—drastic price reductions—has failed to do so. A broad base of the potential market is unable, or unwilling, to buy not only because of credit restrictions but because of lack of cash and sated demand. Also there is a greater tendency to save after the latest buying spree. And the truly effective stimulant, still lower prices, is hardly in the cards. New pricing policies permissible under the extended Defense Production Act in many instances will permit higher rather than lower prices and though the "problem" industries will be slow in boosting theirs, or will even forego price hikes, they will find it equally difficult to shave prices further in the face of the implied upward trend in costs and wages.

New orders for consumer durable industries have been declining almost without interruption since late in March and eventually this will be reflected in lower inventories. But the correction is not likely to be quick, and it may be quite painful in some cases where compensatory defense orders are slow in coming in. Lines suffering most, such as television, may actually get some Government help in the form of a speed-up in lifting the "freeze" on new TV stations. The resultant broadening of the TV set market should enable the industry to make better progress in moving its top-heavy inventories. But that, too, will take some time.

The President's Mid-Year Economic Report has thrown some further light on the prospective spending time table. Outlays for defense are expected to reach $3 billion this month and will increase to an annual rate of over $50 billion by the end of the year. Spending of such magnitude cannot help but contribute to maintenance of a high level of employment and income, yet we are not prepared, as some do, to predict enthusiastically that the bulk of the enlarged personal income payments will promptly find their way into the various channels of trade. A good deal, we are sure, will go toward paying off debt, replenishing savings and raising living standards impaired by heavy instalment indebtedness which may principally benefit food lines. That a vast number of consumers is short of ready cash is becoming increasingly evident: collections are slow and many are behind; there has been an increase in borrowing on life insurance policies and a mounting number of cash surrenders of policies. In the face of such straws in the wind, the better part of wisdom would seem to be not to go out on a limb in predictions of an early retail boom. There will be some seasonal improvement, of course, as usually is the case during the latter part of the year, but the spurt may not be as vigorous as retailers hope for. The effect of the earlier buying sprees may not wear off until next year.

June figures show 61.8 million persons at work and about 1.98 million unemployed. Though a further gain in employment is likely during the fourth quarter, no real manpower shortage is expected this year. The manpower pinch widely anticipated earlier hasn't developed yet.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—The Treasury continues to raise new money by selling 91-day bills in excess of amounts falling due. The latest offer of $1.3 billion of these bills to be dated August 2 will net $200 million cash for the Treasury after paying off the discount bills due on that date, and will bring to $1,000,000,000 the cash that will have been realized thus far by this method. These bills are mostly taken by commercial banks and as the Treasury lets its cash balances decline, its expenditures, going to corporations and individuals, increases their demand deposits. This factor was cited by the Reserve Board in its recent prediction of a possible increasing money supply in the last half of the year. Total private holdings of deposits and currency in the first half of 1951 fell by $2.5 billion reflecting favorable developments in the Government's fiscal position, an inflow of gold, and the effects of restrictive credit and debt measures. During the six-month period, Government cash receipts exceeded expenditures by $6.8 billion of which the Treasury retained $3 billion to swell its cash balances by that amount, and used the remainder for debt retirement. Of these retirements, $1.6 billion acted to reduce the money supply by a decline in bank holdings of Government securities in that amount. A decline in the gold stock and other items of $1.8 billion brought the factors working for reduction in money to $6.4 billion. Factors acting to increase the supply, consisting of increases in bank loans and investments, amounted to $3.9 billion, leaving a net reduction in the money supply of $2.5 billion. If the Treasury intends to avoid feeding inflationary fires, it will have to concentrate on borrowing from non-bank lenders. In this connection, a new Savings Bond Drive is to start on September 3. For the first half of this year, absorption of these bonds has been poor with new sales amounting to $2.1 billion while redemptions totalled $3.2 billion. June sales of $289 million were at a new low while redemptions for the month at $475 million continued to approximate the rate of recent months. The bond market was called upon to absorb some $171 million of tax-exempt serial bonds of federally-subsidized local Housing Authorities. These Authorities are, by law, non-profit making and the real backing for the bonds is the unconditional guarantee of the U. S. Public Housing Administration assuring payment of principal and interest. With the longest term issues—maturing in 40 years—reoffered to yield 2.25%, the flotation proved to be a success and gave a fillip to the entire bond market.

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TRADE—Today's higher prices were unable to offset the enormous sales volume of a year ago and a result, the value of department store sales for the week ending July 21 was 22% under last year's results for the comparable period. With the first 1950 Korean sales boom lasting through most of August of last year, retailers can expect a continuation of unsatisfactory year-to-year comparisons. Hopes have been aroused, however, by Congressional action which incorporated an easing of some consumer credit restrictions into the recently passed economic controls bill.

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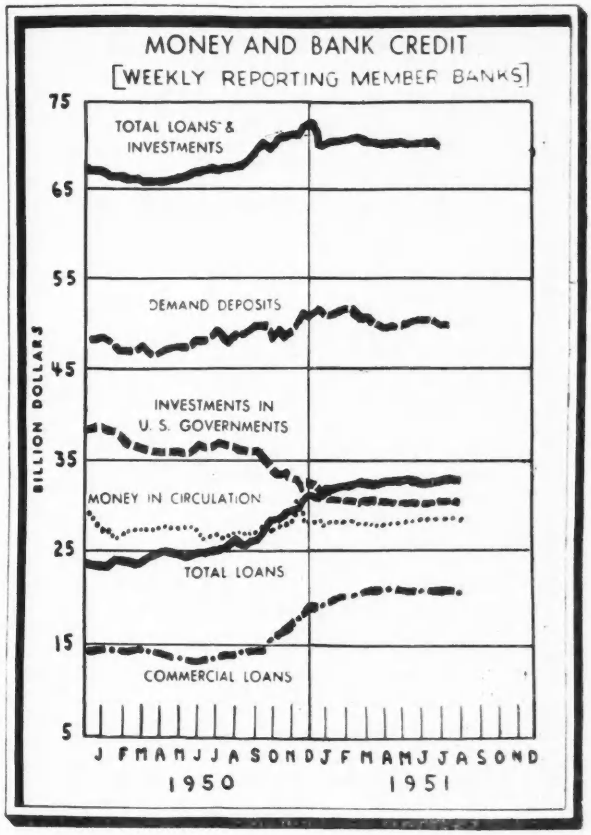
INDUSTRY—The Federal Reserve Board reported that a "somewhat more than seasonal" decline in industrial production is indicated for July. The Board thought its index of



output of the nation's mines and factories might decline to about 215 in July from the June figure of 222. The drop was mainly attributed to increased vacation shutdowns in non-durable goods industries and a further decline in auto production.

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COMMODITIES—Congressional maneuvering on price controls which finally resulted in a bill that appeared favorable to farm products, apparently had little effect on commodity prices. Futures showed stability in the latter half of July with the Dow Jones futures index closing at 177.66 on July 30 after reaching a low for the year to date of 176.43 on July 18. Spot prices appeared weaker than futures. Thus the Bureau of Labor Statistics spot index of wholesale prices, which stood at 327.9 on July 18, dropped somewhat further and closed at 327.1 on July 30.

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BUSINESS FAILURES in June of 699 firms was 7% below May and 4% less than the failures of a year ago, according to compilations of Dun & Bradstreet, Inc. **LIABILITIES** of failing concerns in June totalled $22.8 million, a drop of 3% from May but 26% larger than those involved in the failures of June 1950.

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	June	2.7	2.43	1.2	1.55
Cumulative from mid-1940	June	419.1	416.4	396.4	13.8
FEDERAL GROSS DEBT—$b	July 26	255.5	255.2	257.4	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	July 18	49.9	49.7	47.7	26.1
Currency in Circulation	July 25	27.7	27.8	26.9	10.7
BANK DEBITS					
New York City—$b	July 18	10.2	11.0	9.5	4.26
93 Other Centers—$b	July 18	15.5	14.5	14.8	7.60
PERSONAL INCOMES—$b (cd2)	May	249.5	249	217	102
Salaries and Wages	May	164	165	138	66
Proprietors' Incomes	May	49	48	42	23
Interest and Dividends	May	20	20	18	10
Transfer Payments	May	13	12	14	3
(INCOME FROM AGRICULTURE)	May	21	21	17	10
POPULATION—m (e) (cb)	May	153.9	153.7	151.3	133.8
Non-Institutional, Age 14 & Over	June	108.8	108.8	109.4	101.8
Civilian Labor Force	June	63.8	62.8	64.9	55.6
unemployed	June	2.0	1.6	3.4	3.8
Employed	June	61.8	61.2	61.5	51.8
In Agriculture	June	8.0	7.4	9.0	8.0
Non-Farm	June	53.8	53.8	52.4	43.8
At Work	June	59.2	59.4	59.1	43.2
Weekly Hours, non-farm	June	41.7	41.9	41.8	42.0
Man-Hours Weekly—b	June	2.24	2.25	2.19	1.82
EMPLOYEES, Non-Farm—m (lb)	June	46.4	46.2	43.9	37.5
Government	June	6.4	6.4	5.8	4.8
Factory	June	13.0	13.0	12.1	11.7
Weekly Hours	June	40.8	40.7	40.5	40.4
Hourly Wage (cents)	June	160.4	158.6	145.3	77.3
Weekly Wage ($)	June	65.44	64.55	58.85	21.33
PRICES—Wholesale (lb2)	July 24	178.0	178.7	164.6	92.5
Retail (cd)	July 24	206.8	205.7	185.7	116.2
COST OF LIVING (lb3)	June	185.2	185.4	170.2	100.2
Food	June	226.9	227.4	203.1	113.1
Clothing	June	204.0	204.0	184.6	113.8
Rent	June	135.7	135.4	130.9	107.8
RETAIL TRADE—$b**					
Retail Store Sales (cd)	May	12.1	12.0	11.3	4.7
Durable Goods	May	4.0	4.0	3.9	1.1
Non-Durable Goods	May	8.1	8.0	7.4	3.6
Dep't Store Sales (mrb)	May	0.86	0.85	0.82	0.39
Retail Sales Credit, End Mo. (rb2)	May	11.0	11.0	10.0	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	May	23.8	23.9	19.1	14.6
Durable Goods	May	11.8	12.6	8.5	7.1
Non-Durable Goods	May	12.0	11.3	10.6	7.5
Shipments—$b (cd)—Total**	May	23.7	22.4	19.3	8.3
Durable Goods	May	11.1	10.5	8.6	4.1
Non-Durable Goods	May	12.6	11.8	10.7	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	May	69.9	68.5	53.6	28.6
Manufacturers'	May	38.8	37.8	29.7	16.4
Wholesalers'	May	12.0	11.7	9.5	4.1
Retailers'	May	19.1	19.0	14.4	8.1
Dept. Store Stocks (mrb)	May	2.9	3.0	2.2	1.2
BUSINESS ACTIVITY—1—pc	July 21	181.3	176.5	172.6	141.8
(M. W. S.)—1—np	July 21	211.5	205.9	202.1	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 515)

GAS SALES in May amounted to 3,719 million therms, an increase of 11.4% from the 3,338 million therms sold in May 1950, the American Gas Association has reported. **NATURAL GAS** sales of 3,452 million therms in May was 13.9% above a year earlier and accounted for 92.8% of total gas sales compared with a 90.8% share of the market a year earlier.

* * *

Factory sales of 194,548 **VACUUM CLEANERS** in June marked the second time in five years that sales have dropped below the 200,000 per month level, according to the Vacuum Cleaner Manufacturers Association. The five-year low was reached in July 1949 when only 161,920 vacuums were sold. This year's June figures were 3.7% below May sales and 22.2% under the 250,190 cleaners sold in June 1950.

* * *

FURNITURE SHIPMENTS in June were down 7% compared with the corresponding month last year, according to a survey by Seidman & Seidman. Notwithstanding the fact that June is the summer market month in the Mid-West, the industry booked only 8% more business in that month than it had in May. **UNFILLED ORDERS** in June increased 15% from June 1950, while **NEW ORDERS** declined 20% during the same period.

* * *

EXPORTS from the United States in May totalled $1,351 million, down $23 million from a month earlier but still 63% higher than the $829 million in May 1950. **IMPORTS** into this country at $1,018 million in May were $7 million lower than April's results and compared with imports of $659 million a year ago.

* * *

STOCKS OF REFINED COPPER held by domestic producers at the end of June amounted to 60,912 tons, virtually unchanged from May inventories of 60,896 tons, according to the Copper Institute. Producers outside the U. S. held 151,823 tons on June 30, up 1,274 tons from May. **DELIVERIES** of refined copper to domestic users during June aggregated 114,103 tons versus 118,113 tons in May.

* * *

RESIDENTIAL HOUSING STARTS in June amounted to 130,000 units, an unexpected jump from the 97,000 starts in May. However the increase was confined to starts by public housing authorities which began 42,300 units versus only 3,200 units in May. The unprecedented number of

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1 np (rb)**	June	222	223	199	174
Mining	June	167	165	151	133
Durable Goods Mfr.	June	276	276	237	220
Non-Durable Goods Mfr.	June	197	198	184	151
CARLOADINGS—t—Total	July 21	805	779	830	833
Misc. Freight	July 21	372	384	377	379
Mdse. L. C. L.	July 21	67	69	80	156
Grain	July 21	58	51	58	43
ELEC. POWER Output (Kw.H.) m	July 21	6,975	6,738	6,186	3,267
SOFT COAL, Prod. (st) m	July 21	10.3	8.4	11.2	10.8
Cumulative from Jan. 1	July 21	286	276	257	44.6
Stocks, End Mo.	May	74.8	72.1	44.8	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	July 21	6.2	6.2	5.5	4.1
Gasoline Stocks	July 21	122	124	109	86
Fuel Oil Stocks	July 21	44	43	42	94
Heating Oil Stocks	July 21	75	72	59	55
LUMBER, Prod.—(bd. ft.) m	July 21	605	415	615	632
Stocks, End Mo. (bd. ft.) b	May	6.6	6.3	6.1	12.6
STEEL INGOT PROD. (st) m	June	8.66	9.09	8.14	6.96
Cumulative from Jan. 1	June	52.3	43.6	47.2	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	July 26	252	361	252	94
Cumulative from Jan. 1	July 26	8,662	8,410	6,840	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	July 21	176	190	228	165
Cigarettes, Domestic Sales—b	May	33	30	32	17
Do., Cigars—m	May	479	444	425	543
Do., Manufactured Tobacco (lbs)m	May	19	18	19	28

PRESENT POSITION AND OUTLOOK

public housing starts was thought to be an effort by these Government authorities to beat any Congressional slash in the public housing program.

* * *

MACHINE TOOL SHIPMENTS gained in June with the index of the National Machine Tool Builders Association reaching the highest level since March 1944 at 183.5. This compares with 175.1 in May of this year. The index is based on average annual shipments in 1945-47 as 100, with the average dollar value of shipments during the base period estimated at $354 million annually. The index of **NEW ORDERS** spurted to 567 in June from 483 in May, interrupting a steady decline under way since February.

* * *

Production of **TELEVISION SETS** in June amounted to 326,547 sets, compared to 339,132 in May and 874,634 sets in March according to compilations of the Radio-Television Manufacturers Association. For the first half of this year, output of 3,334,505 TV sets was still ahead of the 3,136,300 sets produced in the first six months last year. Turnout of home **RADIO SETS** also fell sharply in June, totalling 360,031 sets which compares with 1,027,745 radios produced in March. The first half of this year saw 8,027,935 radios manufactured as against 7,333,600 sets in the like period last year.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment sale credit and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

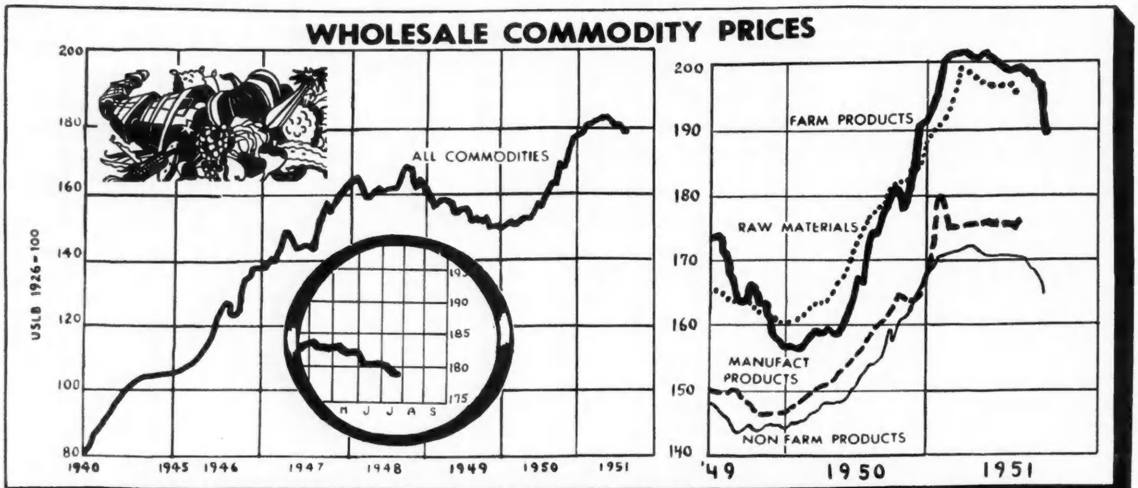
No. of Issues (1925 Close—100)	1951 Indexes High	Low	July 20	July 27
334 COMBINED AVERAGE	196.8	172.6	180.0	185.6
4 Agricultural Implements	292.7	246.5	256.4	268.7
10 Aircraft ('27 Cl.—100)	333.0	252.4	274.4	286.7
7 Air Lines ('34 Cl.—100)	764.7	634.0	653.6	692.8
8 Amusement	101.4	86.6	91.1	92.0
10 Automobile Accessories	257.6	216.2	223.1	230.0
11 Automobiles	46.3	36.1	37.4	38.2
3 Baking ('26 Cl.—100)	23.2	21.0	21.2	21.2
3 Business Machines	377.8	300.8	354.4	372.0
2 Bus Lines ('26 Cl.—100)	183.1	150.6	150.6	154.0
6 Chemicals	414.8	326.0	401.7	414.8A
3 Coal Mining	18.3	13.2	13.3	13.3
4 Communication	72.5	58.3	61.4	62.6
9 Construction	69.5	60.2	65.4	66.6
7 Containers	447.0	376.5	432.4	447.0A
9 Copper & Brass	147.1	126.3	130.2	138.0
2 Dairy Products	83.4	75.9	77.5	78.3
5 Department Stores	84.5	66.0	68.1	68.9
6 Drugs & Toilet Articles	235.0	213.6	224.2	222.1
2 Finance Companies	295.8	243.0	288.5	295.8A
7 Food Brands	200.9	171.4	175.0	180.5
2 Food Stores	118.4	103.8	109.4	106.0
3 Furnishings	75.0	65.7	67.7	67.7
4 Gold Mining	724.1	579.3	596.0	640.6

(Nov. 14, 1936, Cl.—100)	High	Low	July 20	July 27
100 HIGH PRICED STOCKS	117.0	107.11	111.99	115.53
100 LOW PRICED STOCKS	245.8	208.63	215.99	222.29
5 Investment Trusts	91.4	84.8	88.1	90.6
3 Liquor ('27 Cl.—100)	1202.0	1066.6	1135.4	1135.4
11 Machinery	206.4	177.7	185.4	191.1
3 Mail Order	152.0	125.3	129.3	130.6
3 Meat Packing	109.1	85.7	86.8	89.9
13 Metals, Miscellaneous	280.9	233.0	242.9	255.3
4 Paper	386.6	344.3	373.2	386.6
29 Petroleum	408.3	355.0	390.5	408.3A
30 Public Utilities	152.8	142.5	148.6	150.0
9 Radio & TV ('27 Cl.—100)	31.4	26.6	27.4	27.9
8 Railroad Equipment	73.8	57.5	60.9	63.0
24 Railroads	45.4	34.2	37.3	39.7
3 Realty	41.0	34.3	35.1	35.1
3 Shipbuilding	181.0	139.1	145.8	150.8
3 Soft Drinks	395.5	320.3	330.5	337.2
15 Steel & Iron	169.5	134.1	141.5	147.4
3 Sugar	77.6	66.5	71.7	71.7
2 Sulphur	503.4	425.3	455.7	503.4A
5 Textiles	223.6	191.3	191.3	195.4
3 Tires & Rubber	65.0	51.2	63.1	65.0A
6 Tobacco	86.1	75.3	79.3	79.3
2 Variety Stores	320.7	301.1	310.3	310.3
20 Unclassified ('49 Cl.—100)	127.3	109.4	114.0	117.4

A—New High for 1951.

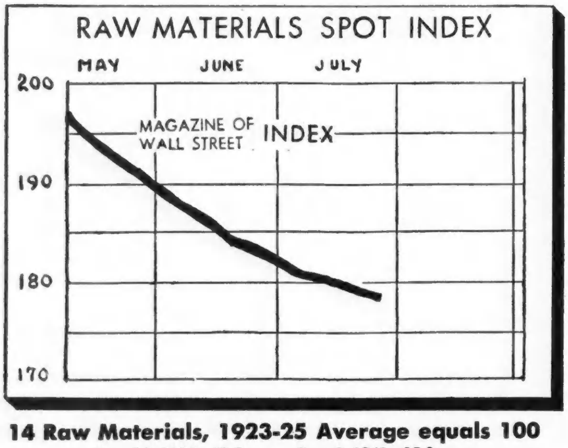
Trend of Commodities

Future prices were desultory in the past fortnight, indicating that immediate effects of any Korean cease-fire have largely been discounted. September wheat futures after hitting a new low at 232 on July 26, rallied quickly on news of the large Agriculture Department export allocations for September under the subsidy program. Closing price for the future on July 30 at 235¾ compared with a price of 236⅝ two weeks earlier. The July 1 wheat carry-over is estimated at 395 million bushels, or 31 million under last year. Loans on new-crop wheat will be equivalent to $2.50 a bushel, basis Chicago. After payment of storage charges, this would figure out at $2.39 a bushel. During the thirteen years the loan program has been in effect, wheat futures with one exception have made their lows in the mid-June to mid-September period and where prices have been below loan levels, they eventually rallied above that level in every year. Corn futures were slightly lower during the past two weeks with nearby September closing at 169⅞ versus 171 at the beginning of the period. This despite U. S. Dept. of Agriculture estimates that July 1 corn stocks at 1,270 bushels were 11% under a year ago. As of June 1, corn in loan stocks or owned by CCC totalled 565 million bushels, leaving some 565 million bushels of "free" corn. If July-September usage equals the 600 million bushels of the third quarter last year, tightness may develop in the September option. Sugar futures continued to weaken with the No. 4 (World contract) September 1950 future down 60 points in the past two weeks to close at 6.35 cents. This compares with the year's high of 8.17 cents reached late in June. Demand for sugar is dormant with distribution currently running far below last year's rates.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

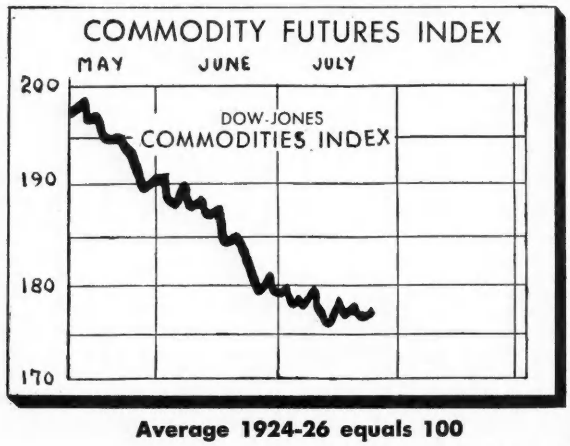
	Date July 30	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
28 Basic Commodities	327.1	327.6	251.7	303.8	156.9
11 Imported Commodities	345.5	348.1	254.4	313.9	157.3
17 Domestic Commodities	315.7	314.9	250.0	297.5	156.6
7 Domestic Agriculture	352.5	358.1	314.1	356.1	163.9
12 Foodstuffs	364.4	364.9	320.0	371.6	169.2
16 Raw Material	313.0	313.6	221.6	272.0	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	178.7	134.2	126.4	93.6	58.7	61.6	57.5	64.7



Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111.7	88.9	67.9	57.7	86.[illegible]
Low	176.4	140.8	123.0	98.6	58.2	48.9	47.3	54.[illegible]

Keeping Abreast of Industrial and Company News

Koppers Co., Inc., has acquired an interest in Continuous Metalcast Co., Inc., which owns and controls a process for the continuous casting of metals. The latter company is owned jointly by Irving Rossi, its president and inventor of the continuous casting process; Allegheny Ludlum Steel Corp.; Scovill Manufacturing Co. and American Metals Co. Ltd. Koppers Co. has bought part of Mr. Rossi's interest. Its main role will be to engineer, fabricate, erect and sell the continuous casting machines licensed by Continuous Metalcast Co.

Northwest Airlines, Inc., has applied to the Civil Aeronautics Board for a 12,000-mile extension of its Southeast Asia routes. The new routes would give Northwest a 32,000-mile system by allowing the company to fly from Tokyo via Hong Kong to Bangkok, Ceylon, Bombay, Singapore and Java; also from Manila to Bangkok, Bombay, Saigon, Java and Borneo. Under the plan, Northwest flights would connect with Transworld Airlines at Bombay. Other round-the-world connections could be made with KLM Royal Dutch Airlines and Air France.

Aluminum Co. of America has awarded **Westinghouse Electric Co.** a contract in excess of $3 million for electrical apparatus for the new aluminum plant being built at Wenatchee, Wash. The new $50 million plant will be capable of producing 170 million pounds of aluminum annually. The electrical equipment ordered is scheduled for delivery early next year.

Ford Motor Co. has started a $43 million expansion and modernization program of steel operations in its Rouge plant that will increase the company's annual finished steel output by 190,000 tons or 18%. Scheduled as part of the program are 37 new coke ovens, a new sinter plant, installation of new pig iron casting equipment and extensive improvements in the open hearth and rolling mill facilities. This program constitutes the second major expansion of Ford's steel operations since World War II. The first expansion in 1947 and 1948 cost an estimated $26 million.

The New York State Natural Gas Corporation, a subsidiary of **Consolidated Natural Gas Co.,** has begun preparatory work on the development of an $8,969,100 gas storage pool in Western Pennsylvania. The pool, in Armstrong and Indiana counties, will ultimately store underground 13 billion cubic feet of gas and will have a deliverable capacity of 264 million cubic feet a day. The project, known as the South Bend Storage Pool, will be financed by New York State Natural's sale of securities to its parent, Consolidated Natural Gas Co.

The Chevrolet Division of **General Motors** will erect a million square feet of new buildings in Tonawanda, N. Y., to provide additional manufacturing capacity for the production of Wright R-3350 aviation engines for the Air Force and Navy.

American Woolen Co., world's biggest weaver of wool fabrics, has purchased for an undisclosed price Premier Worsted Company's mill at Raleigh, N. C. American Woolen is expected to expand the property and to have it ready for operation by the end of the year. It will use the facility to weave wool-synthetic blended fabrics.

Continental Can Co. has bought for an undisclosed sum the entire capital stock of Dixon Manufacturing Co., Inc., of Coffeyville, Kan., contract manufacturers of aircraft components. The Coffeyville plant, which comprises a number of buildings totalling more than 150,000 square feet, is a major producer of components for the B-47 program, as well as of spare parts for the L-5, B-50 and B-29 programs.

Sun Oil Company is planning a new refinery at Sarnia, Ontario, to process 10,000 to 15,000 barrels of crude oil daily. The plant, costing about $10 million, will consist of combination atmospheric and vacuum distillation units and an 8,000 to 10,000 barrel a day Houdriflow catalytic cracking unit. Sun Oil hopes to have the project completed by March 1953.

General Fireproofiing Co., manufacturer of metal office furniture, plans to boost its defense output by expanding its plant at Youngstown, Ohio. The enlargement will enable the company to provide Republic Aviation Corporation with parts for Thunderjet fighter planes and to manufacture other defense items. Company's order backlog currently exceeds $20 million.

Gunnison Homes, Inc., U. S. Steel Corporation's prefabricated housing subsidiary, intends to enter the public housing field. As a start, the company will roll from its assembly lines 90 prefabricated buildings for a housing project being built by the Public Housing Administration at New Albany, Indiana.

Twentieth Century-Fox has opened a way to bring color television to the nation's theater screens. It acquired the right to use the **Columbia Broadcasting System's** color TV process in its Eidophor large-screen theater television system and announced it will produce equipment for bringing color TV to theaters.

National Lead Co. is acquiring a substantial interest in Nickel Processing Corporation which will operate the former Nicaro Nickel Co. in Cuba. The mine and reduction plant will be operated under contract with the General Services Administration of the U. S. Government. Sharing ownership of Nickel Processing Corporation are Tin Processing Corporation, controlled by the Dutch Billiton interests, and a number of Cubans.

Rheem Manufacturing Co. is purchasing a controlling interest in James Graham Manufacturing Co. of Newark, California, maker of gas ranges. The business will continue under the management of Clarence Graham, son of the founder. Purchase price involves payment of cash and Rheem common stock, the amount to be based on the Graham Company's total valuation of about $3 million.

Commercial Solvents Corporation will start large-scale production of dextran, a blood plasma "expander," within a few months. The company is now completing its new $1.5 million plant in Terre Haute, Indiana, and will have an initial minimum production rate of one million pints annually. The dextran product, which bears the name "Expandex," was the first of its kind to be approved for use as a blood expander in the United States. It is employed in the treatment of shock and, like blood plasma, is capable of restoring blood pressure and increasing the volume of circulating blood.

Glenn L. Martin Co. announced that **Bellanca Aircraft Corporation** will have an important part in the building of the Navy's newest anti-submarine seaplane—the Martin P5M-1 Marlin. Contracts have been signed with Glenn L. Martin Co., designers and manufacturers of the Marlin, for the Bellanca company to build fins, rudders and rudder cabs of the big flying boats. Production is scheduled to begin as soon as the necessary tools are received by Bellanca from Martin.

Monsanto Chemical Co. recently sold $66 million 50-year 3¾% income debentures at par to six investors. Proceeds will be used for expansion, including a phosphorus plant at Soda Springs, Idaho; a new plastics plant at Cincinnati, Ohio, and additions at Texas City, Texas. Interest on the debentures issue will be cumulative and payable annually only if earned. Under the terms of the agreement, the company has the right to draw down the monies at various dates through April 30, 1953. Sinking fund payments commencing after 30 years are to be sufficient to retire one-half of the issue by maturity.

American Radiator & Standard Sanitary Corporation has announced plans for spending nearly $4 million to increase production and warehousing facilities at its Buffalo and Elyria, Ohio, plants. At its Buffalo stamping plant, it expects to spend about $2 million to install facilities for metal processing and painting as well as for a plant-wide conveyor system for handling materials. At Elyria it is going to erect a $2 million warehouse for storing warm air heating equipment.

Dresser Industries, Inc., announced its formation of a new subsidiary, Dresser Equipment Co. The latter is composed of two former Dresser Industries subsidiaries, Kobe, Inc., developers and manufacturers of hydraulic oil well pumping equipment; and International Derrick & Equipment Co., manufacturers of oil well drilling and production equipment. These two organizations will function as divisions of Dresser Equipment Co.

Sanger Bros., Inc., largest department store of Dallas, Texas, is planning to join **Federated Department Stores, Inc.,** a department store group. The decision is subject to stockholders' approval. Under the plan, Federated will acquire all the assets of Sanger. The latter's stockholders will receive one share of Federated common stock for each 2½ shares of Sanger common. At this ratio, 232,071 shares of Sanger will be exchanged for 92,828 Federated shares. Based on current stock operations, the transaction involves about $4.25 million.

Weirton Steel Co., a subsidiary of **National Steel Corporation,** has started construction of a new blast furnace at Weirton, West Virginia. The furnace, expected to be completed early next year, will add 480,000 tons to Weirton's annual pig iron capacity. Great Lakes Steel Co., another National Steel subsidiary, is now building a similar blast furnace in Detroit. These two furnaces are major components of National's current $150 million expansion program which will increase the corporation's ingot capacity to six million tons by 1953. At the beginning of this year, capacity stood at 4,750,000 tons.

A long-term contract to build large naval aviation rocket motors, valued at more than $2.5 million, has been awarded by the U. S. Navy to the **York Corporation.** While details are not announced for security reasons, it was stated that initial work is expected to begin before the end of the year.

Canada Dry is again soliciting additional franchise bottlers after a two-year period during which the company's U. S. license department was virtually closed to prospective licensees. During this period, the department has focused all efforts upon developing and consolidating the 100 new bottlers who had started operations in 1948 and 1949. This conservative policy has proved "markedly successful," according to the management, which reports that with very few exceptions, their bottlers are doing very well indeed, both financially and in terms of entrenchment in their markets. Realistic pricing has been an important factor in their success, it was stated.

The promise of "a long procession of intriguing new products" was held out by a spokesman for **E. I. duPont de Nemours & Co.** at ceremonies dedicating the company's new quarter-million dollar addition to its rubber research laboratories. The new laboratories will evaluate and develop new products based on natural and synthetic rubber latex, a milk-like fluid made up of minute particles of rubber suspended in water. Latex is used to make such things as foam rubber, rubber gloves, and balloons. Emphasis will be on new and improved latex products derived from neoprene, the company's special oil and sunlight resistant synthetic rubber. Among products earmarked for early attention are new shoe adhesives that may eventually eliminate nails and stitching altogether in the manufacture of footwear; fire retardant sponge for upholstery; high-flying weather balloons; bonded fibers for upholstery cushioning that won't pack down or get lumpy; and paper that can be soaked with water and still remain strong.

Sterptomycin production on a sizeabe scale will be undertaken by Bristo Laboratories, Inc., Syracuse, N. Y., already one of the largest producers of penicillin, it was announced by the president of **Bristol-Myers Company,** the parent organization. The development will involve an expansion of Bristol Laboratories' Syracuse plant to provide necessary fermentation and extraction facilities. Penicillin production has already been doubled by the expansion program begun at the plant in 1950.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

General Telephone Corporation

"Please furnish information as to recent operating revenues of General Telephone Corporation and dividend payments and outlook over coming months."

I. R., Lincoln, Nebraska

General Telephone Corporation showed for the first four months of 1951 consolidated income balance available for the common stock of $1,550,407 compared with $811,520 for the corresponding period a year ago. For the twelve months ended April 30, consolidated income balance available for the common stock was $4,394,154 compared with $2,500,745 for the preceding twelve months period.

The consolidated income balance available for common stock for the first four months of 1951 was equal to 96c per share on the 1,620,400 shares of common stock outstanding at the end of the period and equal to $1.04 per share on the average number of shares outstanding during the period. For the first four months of 1950, during which there was no appreciable change in the number of shares outstanding, consolidated income balance available for common stock was equal to 67c per share on 1,196,000 shares.

For the twelve months ended April 30, 1951, the consolidated income balance available for common stock was equal to $2.71 per share on 1,620,400 shares of common stock outstanding at the end of the period, and equal to $3.17 per share on 1,384,000 shares, the average number outstanding during the period. This compares with consolidated income balance available for common stock equal to $2.09 per share on 1,196,000 shares for the preceding twelve months.

Operating revenues for the first four months totaled $26,084,216 compared with $21,271,225 for the corresponding four months last year. For the twelve months ended April 30, operating revenues were $74,893,253 compared with $61,614,397 for the preceding twelve months.

Dividends in 1950 totaled $2.00 per share and 50c quarterly continues as the current rate.

Pacific Lighting Corporation

"I have been a subscriber to your publication for a good many years and only on rare occasions have taken advantage of your Personal Consultation Service. Will you please furnish recent operating data on Pacific Lighting and dividend rate?" *R. F., Detroit, Michigan*

Pacific Lighting Corporation's earnings for the twelve months ended March 31, 1951 amounted to $5.42 per common share, compared with $3.29 for the twelve months ended March 31, 1950, and $5.88 for the year ended December 31, 1950.

The gross revenues for the twelve months ended March 31, 1951 were $117,253,767, representing an increase of $12,955,964 over the figures for last year's comparable period. This increase was about equally divided between domestic and commercial customers, industrial, gas engine and wholesale customers. Despite a substantial increase in the number of customers, the total volume of sales to domestic and commercial customers for the three months ended March 31, 1951, was approximately identical to the volume for the first quarter of 1950. This was due to the warmer weather this year.

Operating expenses, totalling $74,121,003, were up $6,841,488 over the year ended March 31, 1950. Approximately 75% of the total increase in expenses was due to larger volume of gas purchased. The remaining 25% was due to rising field costs of gas, additional maintenance, and somewhat higher operating expenses resulting from a larger number of customers being served. Taxes totaled $21,646,380, and were up 36.1%.

The number of active meters totaled 1,572,964, representing an increase of 100,137 over March 31, 1950. This is the most rapid expansion that has occurred in any one year period in the history of the company.

Dividends in 1950 totaled $3.00 per share and the same amount is expected to be paid this year.

Walter Kidde & Company, Inc.

"Please submit comparative sales volume and earnings of Walter Kidde & Company for the past two years and also new developments, if any."

P. G., Nashville, Tennessee

Net sales of Walter Kidde & Company, Inc., for the fiscal year ended December 31, 1950, were $10,959,000, compared with $11,449,000 in 1949. Earnings after all charges and taxes amounted to $783,494 in 1950, compared with $408,171 in 1949. Earnings per common share were $3.33 against $1.76 the year previous.

The company started the year 1950 after a period of very low bookings in the last quarter of 1949. Early in 1950, bookings came back to the former postwar level. From that time to the end of the year, in some measure due to increased defense activity, new orders have been booked at an in-

creasing rate.

The consolidated backlog of unfilled orders at the close of the year was somewhat over $7,500,000 in comparison with less than $3,600,000 at the end of 1949. With orders continuing to come in at an accelerated rate, it is expected a substantial increase in volume of sales will be made in the year 1951. Earnings should also increase, though not necessarily at the same rate. A larger proportion of Government orders in new business is accompanied by a limitation of profit on those items and the excess profit tax will operate to reduce the net earnings for the year.

In the engineering field, the principal new development of the year has been in pneumatics. A new and highly efficient type of air compressor, extraordinarily small and light weight, has been tested for use in operating aircraft mechanisms. A number of other devices for the operation of such mechanisms have been designed and brought to the stage of production. An improved guncharger is already in production for military use. Several new items in the textile field have been placed in production.

In December of 1950 the formation of Walter Kidde S.A., Industria E Commercio was completed in Brazil and it is anticipated that this foreign subsidiary will provide a new opportunity for the production and sale of the same type of fire protection equipment in that country as have become familiar in other countries of the world.

Dividends in 1950 totaled $1.00 per share and the 25c quarterly dividend has recently been increased to 35c , making total payments thus far this year 60c per share.

Thermoid Company

"Please furnish information on nature of business of Thermoid Company, recent earnings and financial position."

Y. M., Brownsville, Texas

Sales of Thermoid Company for the year 1950 rose 33% to $30,779,796 and earnings were $2.26 a common share, compared with $1.01 in the previous year. Thermoid Company makes automotive friction materials, fan belts, industrial rubber goods and textiles.

Gains were reported for all five plants in the United States and Canada and sales have shown a continued increased rate in 1951, the first two months showing a 70% gain over a year ago.

Peace-time products, with the exception of carpet, are also war products and if carpet production declines the looms will probably be used to manufacture duck and the spinning mill for wool yarn as during World War II. Curtailment of passenger car production will increase replacement part sales.

Current assets at year-end were $12,260,496 and current liabilities were $5,575,037, leaving net working capital of $6,685,459 compared with $4,816,059 the year previous. In November 1950 an issue of 3.4% 15-year unsecured notes replaced the first and second mortgages. The fewer restrictions on working capital resulting should permit the payment of dividends in closer relation to earnings in the future.

Dividends totaled 60c a share in 1950 and 20c is the current quarterly rate.

Gross sales for the first quarter of 1951 were $9,465,182 and net profit was $450,811, equal to 52c per common share on 800,603 common shares outstanding and this compares with first quarter 1950 gross sales of $5,402,863 and net profit of $270,847, equal to 31c per share on 750,000 common shares outstanding.

Truax-Traer Coal Company

"I hear that operations of Truax Traer Coal Company have improved substantially in the past year. Will you please give reasons for this sharp uptrend and also the financial position of the company."

M. T., Rome, N. Y.

In the fiscal year ended April 30, 1951, Truax Traer Coal Company reported consolidated net income of $4,025,823 after all expenses and taxes, equivalent to $3.65 a share on 1,103,507 shares of common stock outstanding. This compares with the preceding year's net income of $1,514,621 or $1.54 a share on 985,107 shares then outstanding.

Net sales for the year, including sales of purchased coal and merchandise, were $57,503,835, compared with $26,316,580 for the preceding year. Production of 9,017,965 tons for the year compared with 4,888,301 tons mined in the previous 12 months.

Two factors were primarily responsible for the increases in sales and production. One factor was that the preceding fiscal year ended April 30, 1950 reflected the loss of production due to the prolonged miners' strike and the ensuing three-day work week. The other was the acquisition of Binkley Coal Company and its subsidiaries in June 1950. Figures of the current fiscal year include the results of operation of these companies since that date.

Production of coal by all three operating divisions has continued at fairly high levels, giving indications that the present market distribution of the company's output may be offsetting the seasonal summer let-down to which the coal business is normally subject. This seasonal pattern, which is due to reduced heating requirements during the summer months, has not been generally apparent during the post war years because of abnormal conditions in the industry.

The company recently consolidated its long term debt by borrowing $6 million from two Chicago banks and an insurance company, payable at the rate of $500,000 per year over the next 12 years.

Working capital at April 30, 1951 amounted to $8,062,194 compared with $5,125,394 a year ago, an increase of $2,936,800.

Dividends in 1950 totalled $1.40 a share and 40 cents is the current quarterly rate.

Devoe & Reynolds Company

"Please furnish recent sales and net profit of Devoe & Reynolds Company and also dividend payments."

M. I., Raleigh, N. C.

The sales of Devoe & Reynolds Company for the six months ended May 31, 1951 amounted to $25,316,741, an increase of 24.4% over a year ago.

The profit, before income taxes, was $2,453,746, and after provision for Federal income and excess profit taxes, the net profit was $1,075,746, equivalent to $1.87 per share on the class A stock and 93 cents per share on the class B common stock outstanding, as compared with $1.54 on the class A stock and 77 cents on the class B common stock for the first half of the previous year. The provision for Federal income and excess profit taxes was $1,378,000 as compared with $496,000. The normal and surtaxes were estimated on a 50% rate, and 30% for excess profit taxes, based on six-twelfths of the excess profit credit. This estimate anticipates some of the increase in the Congressional bill.

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What Second Quarter Corporate Reports Reveal

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higher taxes and rising costs tell the story that gets a lot of repetition as we read the current record of industry experience. But the story isn't bad enough for investors to become greatly concerned at this time over regular dividends for the stronger companies.

In the case of U. S. Steel, there is the additional element of extreme conservatism of dividend payments. The regular 75 cents payment constitutes less than 40% of second quarter net profits of $1.99. If earnings get no worse, there should be ample room for a year-end special.

Interestingly, Big Steel in the second quarter had a net return of 6.4% on sales which compares with about 6% in the first quarter – a mild improvement – but with 9.3% in the second quarter of last year and 8.6% for the first half of 1950. The small gain in the second quarter profit margin *may* indicate that the margin decline has been arrested but proof of this remains for the future. At any rate, second quarter net profits of $58 million, and of over $106 million for the first half, are far from "lean." The former figure exceeds first quarter earnings by almost $10 million; the latter is about $12 million under last year.

Big Steel Sets the Trend

By and large, Big Steel has been setting the trend for the industry. Others including Bethlehem Steel, Armco, Jones & Laughlin, Republic Steel, etc., are reporting lower earnings compared with a year ago despite full capacity operations and the excess of demand over supply. Steel prices of course are frozen and are not likely to be raised—except perhaps on some specialties—despite the new policies towards price ceilings implied in the new Control Act. Should forthcoming union negotiations produce higher wages, price rises are bound to follow.

In the auto industry, General Motors Corp.'s second quarter earnings dropped off sharply as a result of curtailed production and increased taxes. Net income fell off to $139 million, equal to $1.55 a share, from $273 million or $3.07 a share in the second quarter last year. In the first quarter of the current year, when the company already felt the adverse factors mentioned, net earnings were $141 million or $1.58 a share.

The steep profit decline was not particularly surprising if one considers that the tax bill in the first half rose to almost $509 million from $345 million last year; and declining volume has naturally been tending to raise operating costs. Thus the net profit margin during both, the first and second quarter, was down to 7.2% of sales compared, for instance, with 13.9% in the second quarter last year, and 11.1% in the full year 1950.

Second quarter sales of passenger cars lagged 24% or 189,612 units behind production for the like period a year ago. Truck sales rose 3%, including sales to the Government. Combined truck and passenger car sales for the first six months were off 11% from 1950. But a 21% boost in sales of cars and trucks made in foreign plants reduced the overall production drop to 8%.

G.M.'s defense production in the second quarter was up 30% from the first quarter but the company is still preparing for large scale defense output. Military sales in the first half came to $230 million, and the backlog of defense orders amounts to several billions. Incidentally, a provision of $15 million for reconversion and plant rehabilitation resulting from the defense program was made in both the first and second quarter of this year. In each quarter, this had reduced per share net by some seventeen cents a share.

The company expects to build some 513,000 cars in its U. S. plants in the third quarter, a decline of 36.5% from a year ago and comparing with about 617,000 cars in the second quarter and 673,000 in the first quarter. But there is also a chance that it will apply for, and obtain, higher prices for its output. In this respect, Chrysler's latest application may be a straw in the wind. And higher prices should at least work against further decline of net profits despite lower volume. In the circumstances, the $1 quarterly dividend seems hardly in jeopardy though supplementary payments are rather doubtful.

In the electrical field, General Electric reports that higher taxes caused a 9% decrease in first half profits although sales were 34% above the like 1950 period. Per share net for the period came to $2.44 a share versus $2.68, on sales of $1,184 million versus $881 million. The company emphasized the tax bite by noting that its pre-tax earnings this year totalled $212.3 million, an increase of 55% over the 1950 period. Tax provisions aggregating $142 million were in fact more than double the amount of the company's net profits earned during the first half.

Consumer vs. Capital Goods

Compared with the first quarter, sales of certain consumer goods decreased in the second quarter because of credit restrictions, reduced demand and the general effects of the mobilization program, yet such decreases were more than offset by gains in the sale of producers goods with the result that total second quarter sales came to $615 million against $569.6 million for the first quarter. Per share net, consequently, was modestly higher—$1.23 in the second quarter as against $1.21 in the first quarterly period, though more substantially down from the $1.41 earned in the second quarter last year.

Management's prediction is that somewhat sharper cuts in consumer goods production in the final half of 1951 should be substantially offset by increased output of durable goods and equipment for national defense. If so, the 75 cents quarterly dividend should not be threatened though absolute assurance of this should depend on the extent of further tax rises and the trend of profit margins. The latter during the first half was placed at 5.9% as against 8.8% in 1950.

By way of contrast, Westinghouse Electric experienced a moderate decline in second quarter net both compared with the first quarter and the second quarter of last year, the per share figures being 93 cents, $1.05 and $1.05, respectively, though sales showed a healthy increase. Taxes in the second quarter rose to $18.3 million from $10.4 million a year earlier; and for the first six months to $44.9 million from $18.3 million.

Commenting on the more than doubled tax bill, the company's

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The Shift and Change in the Building Industry

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skilled labor in building operations, business responds to changes in rate of expenditures on residential and industrial construction.

Another point to remember in studying the merits of stocks in this industry is the tendency of the market to look beyond the immediate future. Hence, one should endeavor to determine whether current earning power of a particular company is in an uptrend or perhaps has passed its peak. One should also strive to calculate how earnings might be affected by a lull in business and whether a company has sufficient diversification in its operations to offset adverse factors in one phase of building activity.

In considering building supply stocks for investment portfolios it is especially important to examine individual companies, for divergent trends frequently prevail to a greater extent than in most industries. To illustrate this point it may be well to review a few sample statements. A glimpse at Lone Star Cement's midyear statement, for example, reveals a decline in net profit for the first half of about 25 per cent notwithstanding a 10 per cent expansion in sales. Reason for a drop in earnings for the six months to $1.24 a share from $1.67 in the corresponding period last year could be found in the sharp increase in taxes. One might judge, therefore, that this company's earnings are vulnerable to excess profits taxes.

With benefit of reactivation of idle production facilities, American Radiator & Standard Sanitary boosted sales in the first six months this year more than 40 per cent and lifted net profit after taxes to $12.2 million from $10.6 million last year, equivalent to $1.20 against $1.04 a share. This showing takes no account of dividends from foreign subsidiaries, which rose substantially this year. Improvement in profit margins was evident in spite of the sharp increase in tax accruals. One would be inclined to attribute this showing partly to greater efficiency in operations and partly to an exceptional gain in volume.

Vulnerability to excess profits taxes also goes far toward explaining a drop in earnings for National Gypsum of 11.5 per cent in the first half this year on a sales increase of 34 per cent. This company has been expanding operations in recent years in keeping pace with a rapidly expanding market for wallboard. Here again, we find an example of a company that is being handicapped in its growth by lack of a large invested capital base.

It may be observed also that heavier tax burdens held down earnings of Johns-Manville in the June quarter to a trifling gain over the corresponding period of 1950 in spite of a sales gain of more than 30 per cent. The favorable first quarter showing, however, enabled this company to register a fairly satisfactory improvement for the first six months at $3.98 a share, compared with $3.22 in the corresponding six months of 1950.

The Laggard Farm Equipments

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stock; but net income has now grown so large that the preferred dividend is no longer burdensome as it was in some earlier years. Operations are well diversified, including in addition to farm equipment, motor trucks and industrial tractors, gasoline and deisel engines refrigeration equipment, and currently various kinds of defense business. As with other farm equipments the company's second-half business will probably be limited by the available materials, particularly copper and steel.

Deere & Company ranks second in the industry with a full line of tractors, planting, cultivating and harvesting machinery. About 13% of its business is in foreign sales. Profit margins are substantially better than Harvester's and the company's cash position and capitalization are stronger. At the end of the last fiscal year, cash items exceeded current liabilities and funded debt. Common dividends have been conservative in recent years, although the total payout in 1950 was generous.

Improved Profit Margins

Allis - Chalmers ranks third, since about 60% of its $344 million sales in 1950 were farm machinery. Electrical machinery accounted for about 25% of sales and miscellaneous items 15%-altogether the company produces some 1600 items. The company's profit margins were low in the early postwar period, but improved in 1950. The cash position on March 31, 1951, was only fair, but senior capital is not excessive. Earnings have been quite irregular, but were favorable in the past three years, due in part to improved labor relations. Dividends have been conservative for the most part, with payments made since 1936. The company's order backlog is reported to be nearing the $200 million level, or about 7 to 8 months' business; it recently received a multi-million dollar sub-contract from Curtiss-Wright to build engine parts.

J. I. Case has enjoyed very rapid postwar growth, with sales jumping from $38 million in 1946 to $132.6 million in the fiscal year ended October 1950. The company now has excellent profit margins — almost as good as Deere's. Cash position is a little on the weak side but this may be offset by the absence of funded debt and the comparatively small size of the non-callable $7 preferred stock issue. Earnings on the common stock have increased phenomenally in recent years-from 88c a share in 1946 to last year's $15.42. With no interim reports available, it is a little difficult to gauge the near-term out-

look, but the company was reported early this year to be well situated with respect to raw materials and NPA priorities. Because of the mushroom growth of profits, the stock sells at a rather low multiple of earnings.

Oliver Corp., next in size with sales around the $100 million level, has more moderate profit margins. The cash position is reasonably good, and the senior capital moderate; the current ratio was about 4 to 1 last October. As with most other companies in the industry, share earnings during 1948-51 have been at record levels. The company's record was poor prior to 1940, and dividend payments were small during 1941-47, but since 1947 have been more generous. The present rate is well protected by current earnings, which in the first half of the current October 31 year were substantially ahead of last year.

Recent Merger

Minneapolis Moline ranks next with sales around $80 million per annum. Profit margins have steadily improved in the postwar period. The company had a poor and spotty record until 1947, when earnings began to improve sharply. A merger-recapitalization plan was effected in February 1949, eliminating preferred dividend arrears, and in March 1951 B. F. Avery was acquired by merger. Common dividends were initiated in 1949 and remain very conservative in relation to earnings. The cash position has been greatly improved, and the capital structure is fair, though there is a substantial amount of first and second convertible preferred outstanding.

Gleaner Harvester which specializes in combine harvesting machines, has had a very irregular record. Sales in the year ended September 30, 1950, dropped sharply, amounting to less than $5 million. A redeeming feature is the high profit margin. Share earnings improved steadily during 1946-49, but dropped sharply in 1950. The company recently introduced its new self-propelled combines which are expected to stimulate sales in the current year, so that earnings seem likely to recover. A very sound cash position is maintained.

An Investment Audit of Sears-Roebuck

(*Continued from page* 500)

last year, it is anticipated that the fiscal year 1952 will show volume approximately 5% above 1951 or a total of $2,650 millions, the greatest in its history.

Expenditures for capital investment, improvements to existing facilities, purchase and lease of new stores, and remodernization generally, is a steady annual process conducted on the most painstaking basis of research and development, and accrues more or less regularly at the rate of some $40-50 millions per annum. This takes the form of adding to new stores, relocating older ones which are no longer in a profifitable area, enlargement of some existing stores where necessary, and of the addition of numerous mail order offices. The conclusion can be drawn that the management is wary of lulling itself into a position of complacency and moves firmly according to the necessities of the time.

Capital outlays have been met largely from its own financial resources, from the sale of stores which it has in turn leased, also from the discounting of installment notes. The policy of expansion has thus been featured by utilizing existing liquid resources in a most intensive manner, the company preferring to reduce its net ratio of working capital, unlike Montgomery-Ward which has followed a policy of conservatism with regard to its liquid resources. Actually, Sears now maintains a current ratio of 2.3 to 1 (current assets to current liabilities) wherease in 1941 this ratio stood at 3.6 to 1 and up to 1944 stood at an average of 4.3 to 1. Apparently the management does not worry about the reduction in this ratio since it has given no signs of radically altering its policy of expansion and modernization.

It is not to be thought, however, that finances have not been maintained on a strong basis despite the heavy outlays for expansion. Actually cash and working capital were at a new peak at the end of the fiscal year ended January, 1951. The figures were $268.5 million cash against $137.1 in 1946, and working capital stood

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An Investment Audit of Sears-Roebuck

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at $469.3 million against $288.2 million in 1946.

Of even greater interest is the fact that operating margins have increased with the rise in sales and prices. In 1951, the percentage of operating income to sales was 13.0 the highest in the company's history, with the exception of 1942. The company, thus, shows a tendency toward increasing its efficiency with regard to the cost of sales, a most important factor in merchandising. Illustrating the steady increase in the financial strength of the company, notwithstanding its enormous outlays for capital improvements, is the fact that not only as just stated, net working capital has increased from $183.8 million in 1941 to $469.3 last January, an increase of over 150% but that this was accomplished at a time when inventories increased from $175.3 million to $380.2 million, a rise of about 120%.

In other words, the company has kept excellent financial control over its inventories, quite a difficult feat in a time of rapidly changing price conditions. Depreciation figures have kept pace with this element of control and have averaged around $20 millions during the past few years whereas a decade ago they were about half this figure.

Conservative Dividend Policy

From the investor's standpoint, it is important to realize that as with most companies which are still growing, the policy with regard to dividends must be conservative. In fact, Sears-Roebuck is paying out proportionately less to stockholders than it did in the years when it earned far less and was expanding much less rapidly. For example, the company, since 1946 has been paying from 40-45% of net earnings in dividends but in the years from 1940 to 1944 paid about 75%.The paradox is that the more a company expands, the less it can afford to pay out, speaking relatively, in dividends so that from the standpoint of immediate return, the shareholder frequently does not benefit as much as he thinks he should.

Nevertheless, the advantage is that that portion of earnings not paid out in dividends is utilized to provide new earning power for the company in later years. The important thing, as experienced stockholders know, is not so much the immediate dividend return but the assurance of growth which provides the only real base for earnings and dividends, and, as we have seen, Sears qualifies in this respect.

Of course, it is not to be expected that Sears will continue to expand as rapidly in the net few years as it has done since the ending of the world war. A period of relative consolidation is probably at hand during which the management will concentrate more on increasing the efficiency of each unit operated than on the actual increase of outlets. In this respect, Sears is likely to benefit strongly from its policy of placing important units near industrial centers which are increasing in population.

The Population Factor

With an average annual increase of population in the U. S. of about 2.5 million, total population of this country by 1960 probably may reach 175 million against 154.5 million at the present time. It is very obvious that this means a growing source of new customers for concerns like Sears. If, therefore, Sears not only increases its stores during the present decade, but—of even greater importance— improves its operating efficiency, results will become apparent in the profit figures.

Our tabulation shows the trend of net profit margins in recent years. The relatively unfavorable comparison of the later years compared with 1946 is entirely due to the increase in taxes which rose from $62 millions in 1946 to $160 million for 1951 and they will undoubtedly be higher for the current fiscal year. The impact on net income caused by the tax burden is quite pronounced. The actual income taxes for fiscal 1950 were $160 million against net income of $1434.6 million; thus the company paid out more in taxes than it showed in profits after the taxes were paid. Fortunately, the company has a fairly high excess profits tax base, estimated at around $4.70 a share, which should act as a cushion in the current period of high profits.

Last year, Sears netted $6.08 per share against $4.58 in 1949 and $5.80 in 1948. While the company benefited in the earlier part of the present year from high volume and high prices, the past few months have brought about somewhat of a recession in retail merchandising. While it is considered likely that for fiscal 1952 Sears may show an operating profit comparable to 1951, the net will be cut on account of higher tax liabilities.

It is probable that net will not exceed $5.50 per share, a ten percent reduction from the year previous. Furthermore, it must be considered that the full year's total of dollar sales will not be at the rate of the first half, due to the current ebbing of consumer demand. Nevertheless, as stated, because the first half's results were so highly favorable, the total for the year will compare well with last year.

As for dividends, it appears that no change is likely in the near future. The company pays fifty cents quarterly and last year added to this amount an extra 75 cents at the year-end. The same extra payment is expected this year so that total dividends for the year should again amount to $2.75 per share. At the present price of about 53, the yield is about 5.2%, a good return for a sound issue.

The company has no bonds or preferred stock, its sole capitalization consisting of 26,646,513 shares (split on a four to one basis in 1945). Of these shares, 5,426,574 are held by employes saving and profit sharing pension funds.

Market Action

Sears Roebuck stock is now selling close to its all-time high. Only ten years ago, for example, it sold at approximately one-fifth the present price. It must be recognized that so far as the price of the stock is concerned, it has kept pace, more or less, with the phenomenal growth of the company during this period. The question, then, which the investor must ask himself is whether it is reasonable to expect future growth on a par with recent years.

This, of course, will depend just as much on general economic conditions as on the capacity of the management. However, in recent years the management has pro-

duced an unparalleled record of growth in a difficult period. It is resourceful and imaginative and it is not too much to expect the same degree of efficiency to be maintained in the future. For the investor interested in long-range objectives, Sears-Roebuck, as a "growth" stock seems to qualify as an investment holding. For those not so patient, it is only fair to point out that in a general major market decline, the stock could easily react to a considerable degree.

What's Ahead for Rail Equipments

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all but 19 were Diesel types. There were orders for three electric and 16 steam engines. In the first five months of the year the railroads placed in service more than 1,000 new locomotives, of which only six were steam and one was an electric type. This expansion represented a gain of about 10 per cent for the year to date.

Industry's large backlog and the prospect of a high rate of operations throughout the year are major factors in appraising earnigs potentialities. Unlike many other industries, rail equipment companies appear likely to report larger earnings this year than in 1950, for last year these concerns experienced only normal results until the second half when Korean developments stimulated demand for new supplies. Accordingly, full benefits of the national defense program were not made manifest until toward the end of 1950. Practically all manufacturers appear destined to operate at virtual capacity throughout this year. In fact, some representatives may experience increased shipments in excess of 100 per cent this year.

Increased Prices

Leading factors increased prices of their products in the fourth quarter last year and most companies have escalation clauses in their contracts, which if permitted under government regulations would afford protection against increased wages and raw materials. Hence, profits this year should register significant improvement over 1950 in face of heavier tax burdens. Although it is too early to judge full year's results—even by a few isolated reports for the first six months—it is interesting to observe what a typical company has done. New York Air Brake, for example, reports for the first six months an increase in sales of more than 100 per cent at $14.2 million, compared with $6.5 million in the first half of 1950. Net profit also more than doubled at $1.1 million, compared with about $512,000 last year. This resulted in net profit of $2.08 a share, against 98 cents a year ago.

A small manufacturer, one of whose divisions manufactures freight cars, Pittsburgh Forgings Co., showed somewhat similar results in the first six months. Net profit after provision for excess profits taxes jumped almost 100 per cent at $501,000. equal to $1.02 a share, from $258,000, or 53 cents a share, in the corresponding period of 1950.

Continued Full Operations

It may be too optimistic to expect the industry to maintain this rate of improvement, and, of course, second half results are unlikely to make as favorable a comparison, but orders on hand appear adequate to support full operations until well after turn of the year. Hence, it would seem reasonable to project earnings for representative companies close to double results to be reported for the first six months. Such expectations would justify optimistic forecasts for 1951 dividend policies.

Illustrative of the feast-or-famine characteristics of the industry, attention may be directed to a variation in earnings trends of different manufacturers. One of the leading factors in the industry, the Pullman Company, for example fared comparatively well last year even before events in Korea spurred equipment and armament orders. Accordingly, this company's 1951 earnings follow last year's trend more closely than do those of marginal concerns which were operating well below capacity in the first half of 1950. The Pullman Company reported net profit equivalent to $2.01 a share in the first six months this year, compared with $1.95 in the corresponding period of 1950. June quarter earnings, in fact, were slightly lower than a year ago as a result of heavier tax imposts.

On the other hand, Baldwin-Lima-Hamilton boosted net profit in the first half almost 33 per cent from about $1.6 million to $2 million. Expressed on a share basis, however, net declined to 42 cents a share from 62 cents a year ago since capitalization increased substantially in the merger. Westinghouse Air Brake, which has increased the number of shares outstanding in a consolidation of a

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What's Ahead for Rail Equipments

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subsidiary, reported an increase in net profit for the quarter ended July 4 to $1.02 a share from the equivalent of 55 cents on the same capitalization a year ago.

Lest emphasis on the immediate promising outlook for earnings and dividends give an erroneous impression of the industry's long range position, it may be advisable to draw attention to some of its fundamental characteristics. Principal product from a dollars-and-cents angle are massive and expensive – especially modern Diesel engines and newly designed passenger cars. Consequently, the machinery and plants utilized in their production must be correspondingly massive and expensive. That means that large sums must be invested to maintain manufacturing facilities and that economies to be attained in streamlined, assembly-line operations are difficult to accomplish. Thus it is highly important from a manufacturing viewpoint to maintain production as nearly to caapcity as possible.

A Cyclical Industry

Anyone familiar with railroading and manufacture of equipment used by the carriers knows that operations are anything but stable. This has been especially apparent for almost a generation because of a series of international emergencies that have contributed to wide fluctuations in economic conditions. Manufacturers of equipment cannot logically depend upon a stable flow of orders. Thus they must take advantage of occasional boom conditions such as the one being experienced to put plants into the most favorable conditions and to preserve as much of possible of extraordinary earning power.

Periodic swings in business have resulted in keen competition and virtually profitless operations when incoming orders are limited and subsequent prolonged delays in obtaining deliveries when a heavy influx of new business develops. This unsatisfactory situation has tended to boost prices of freight cars and other equipment in boom periods to such levels that railroad managements have sought to conduct their own manufacturing operations. In fact, the practice of maintaining railroad shops for repair work as well as for assemblying new freight cars is becoming more firmly established than ever. This trend presents a threat to marginal manufacturers of freight cars, but is in no way adverse for manufacturers of components – such as freight car doors, frames, wheels and many other parts.

Competition has been intensified by scientific progress in which newcomers to the industry have specialized. Thus, General Motors' Electro-Motive Division moved in to take leadership in Diesels, while Timken Roller Bearing, Fairbanks, Morse & Co., General Electric and others not ordinarily associated with railroad equipment operations have edged into the field with developments that regular suppliers had overlooked.

Aside from the factors enumerated above that lend a speculative tinge to shares of most concerns in this industry, it may be well for the investor to bear in mind that railroad transportation gradually is yielding to competition from trucks, buses and the airlines. This means that a smaller number of units of equipment will be needed as time goes by. It is especially noticeable, for example, that small feeder lines are being abandoned as limited traffic makes operations unprofitable. Such short lines through sparsely populated areas are especially vulnerable to highway transportation. Abandonment releases equipment that may be disposed of or shifted to yard operations.

Equipment Financing Plans

The fact that equipment may be purchased by carriers with almost no capital investment is a point in favor of freight car and locomotive builders. Whether a road elects to purchase rolling stock on the so-called Philadelphia plan, under which a cash payment of only a modest proportion of the complete cost is required, or whether arrangements are made for leasing equipment purchased and owned by insurance companies or other institutional investors, the fact remains that no railroad needs hesitate to place orders for locomotives or cars simply because of a shortage of cash. Capital always is available—and usually at moderate rates — for financing equipment purchases where needed.

Whether or not stocks have fully discounted the immediately favorable prospects, therefore, is the basic question to be determined by investors interested in railroad equipment stocks. Shares of most companies have registered substantial gains from the lows of two years ago. Many still are modestly appraised on basis of projected 1951 earnings, however, and if a high rate of industrial activity is to prevail through 1952, it is quite possible that the traditional recession in this industry may be deferred for a time.

Commodity Prices High or Low?

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livestock marketings, substantial declines in meat prices are indicated. Governmental support programs will prevent prices of farm products from falling out of bed, as they otherwise might under the pressure of huge supplies and a declining demand factor, but a substantial overall decline in prices of farm products and foods is in sight. With food prices under pressure, the cost of living index—recently halted for the first time in months—undoubtedly will work lower.

All of the signs point to a continuation of the present commodity decline for the next six or nine months. There is evidence that, with the underlying trend of the over-age postwar boom downward, deflationary forces are in the ascendancy. Federal price control, whether rigid or weak, will not be much of a problem to business men in the coming months.

In effect, government spending for defense is tending to do no more than fill in an ever-deepening hole in our civilian economy, now that the postwar business boom is approaching completion. As spending increases, the hole to be filled becomes deeper. Consequently, the inflationary impulse that we ordinarily associate with increased government spending is acting primarily to counter deflation. Whether the presently scheduled expansion in defense spending will prove sufficient to check the rising tide in deflation remains to be seen, but it appears

certain that the testing time will come some months hence and at a somewhat lower commodity price level.

New Boom Areas in Canadian West

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Alberta, and a phosphate mine in Montana from which phosphate will be fed to the new Cominco plant at Kimberly. The Trail smelter is being expanded and modernized at a cost of about $15 million.

Other minerals produced in British Columbia include copper (one of the producers, operating one of the largest copper mills in the Empire, is *Britannia Mining and Smelting Co.* on Howe Sound just north of Vancouver City), silver antimony, bismuth, cadmium, gypsum, mercury, and a long list of others. Among the new "finds" is a deposit of perlite rock used for insulating and making wallboard, and, of course, uranium and cobalt, the deposits of the latter two minerals being worked near Hazelton (east of Prince Rupert) by *Western Uranium and Cobalt Co. New Jersey Zinc* is also exploring several areas for uranium and so are a number of smaller corporations.

The present hydro-electric plants utilize only about 1.6 million h.p. out of the total 14 million h.p. credited to British Columbia. When the projects presently under construction and proposed are finished, the B.C. hydro-electric capacity will be about doubled. By far the most stupendous of these projects is that of the Aluminum Co. of Canada. It calls for eventual harnessing of 1.5 million h.p. for making aluminum from the bauxite brought by ships from the West Coast of Latin America.

10-Mile Water Tunnel

According to plans, the water from the Nechako river which flows eastward into the wild Fraser River would be carried by means of a 10-mile tunnel from the eastern side of the coastal mountains, and dropped some 3,000 feet to turbines on the western side of the mountains. The underground powerhouses are to be built at Kitimat, just south of Prince Rupert. Plans are being made for the construction of a city of about 50,000 and a number of other industries.

Another big power plant, generating about 200,000 h.p., is to be built on the Pend d'Oreille River to feed the electric furnaces of the Trail smelter, possibly for making steel, and to provide electricity for the fertilizer plant at Kimberly. Still other projects call for plants in the Vancouver City area which has a population of about 500,000 to 600,000, and on Vancouver Island to serve general needs and to provide power for the Island's expanding pulp and paper industry. The largest suppliers of electricity in these two areas are the *British Columbia Electric Railway Co.* which also operates gas and transportation utilities, and the *B.C. Electric Power Commission*, a provincially owned corporation organized in 1945.

Big Natural Gas Resources

There is little doubt that some day, British Columbia will be also an important producer of natural gas and oil. At present some 60 companies and individuals have taken out petroleum and gas exploration permits. One gas and oil bearing area in which *Royalite Oil Co.* is interested is located in the Charlotte Island archipelago, north of Vancouver Island. *Pacific Petroleum Co.* is drilling for oil in the southeastern corner, in the Kootenay River district. The most extensive natural gas and oil fields are in the far North East along the Liard and Peace Rivers, roughly in the section where the new Alaskan highway bisects the Province. These are the extension of the Northern Alberta gas and oil fields and both *Pacific Petroleum Co.* and *Phillips Petroleum* have been drilling there.

Texas oil interests and a Houston engineering firm have proposed for some time a pipeline from the Alberta fields to serve British Columbia and our Pacific Northwest. However, Premier Manning of Alberta has been wavering in his approval of the scheme.

Although agriculture probably provides the livelihood for the largest number of people, the value of farm production will probably take third place this year. Some five million acres are suitable for cultivation, but only one million acres or so are under crop or farm pasture. The lower Fraser River valley and Vancouver Island have important dairy and poultry industries, while the Columbia and the Kootenay River valleys are famous through Canada for their fruit—apples, pears, cherries, and peaches. Then there is, of course, ranching and livestock raising.

Fishing for salmon, herring (for fertilizer), halibut, etc. is another important industry. British Columbia has a dominant position accounting for over 40% of the value of the Dominion fishery products.

Flourishing Tourist Industry

Last but not least, the tourist industry is setting new records. The gorgeous scenery of the B.C. side of the Rockies, and the mild climate of forest-clad Vancouver Island have been attracting more and more tourists. The completion of the southern transprovincial highway opened up the coastal range area which vies in natural beauty with our own Pacific Northwest.

The exploitation of forests, nonferrous metal mines, and water power resources in British Columbia, the discovery of petroleum and natural gas, and the irrigation of vast tracts of fertile prairies in Alberta are bringing about a spectacular, unparalleled development of the Canadian Far West. There is apparently still more untold wealth to the west and the north in the adjoining territories of Yukon, Keewatin, and Mackenzie.

Capital from all over the world is now pouring into all this region, and as its economy is broad-

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New Boom Areas In Canadian West

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ened by new factories and mines and by more land under cultivation, the purchasing power of the population for the products of the rest of the world is expanding. This year in per capita income and wealth, British Columbia is expected to spring to the head of all the Provinces. Alberta's per capita income and wealth, once among the lowest in Canada, is also edging ahead. It is another example of what can be accomplished under a free economic system.

While there seems to be at present no crest in sight for the tide of expansion and bustling activity in British Columbia and Alberta, there are bound to be temporary set-backs and bottlenecks. In the Vancouver city area and on the Island of Vancouver, there is at present a definite shortage of housing and utility services for the rapidly rising population. The labor situation is tight.

Mines, logging camps, and pulp mills are in serious competition for the available labor, and Premier Johnson was asked recently to act on bringing in without delay immigrant labor from Europe. Rates of $2 per hour and more for a 40-hour week for specialized construction workers are commonplace in the Prince Rupert area where the big waterpower development is to take place. Railway and highway construction and the erection of the present industrial facilities, such as the cellulose mill, contribute to the labor shortage.

"Outside Factors"

In judging future prospects, it should be considered that the present great boom has been brought about by "outside" factors, such as rearmament, and hence, business in British Columbia is likely to be vulnerable to developments over which the Province has no control. The taxes for the construction of highways and utilities and for providing other services which are usually raised without much thought to the future at the time of a boom—could easily prove burdensome if the prices or the demand for Columbian products should taper off.

The present government in Victoria, an alliance of Conservatives and Liberals, has been accused as being too free with the taxpayer's money in furthering various public projects. A particular point of attack in this region which has gained so much from private enterprise, is a scheme, described as "socialistic," for compulsory hospital insurance. New elections are to take place next year.

What Second Quarter Corporate Reports Reveal

(*Continued from page* 523)

president stated that Westinghouse now must earn $1.38 for the Government so that it can retain one dollar to pay the owners of the company (stockholders) for the use of their property, to pay debt retirements, for replacing worn out equipment at current high costs, and to pay for expansion of production facilities required by the defense program.

Not all companies, however, have shown declining second quarter profits. Take Robert Gair Company which during that period netted $1.24 a share compared with $1.11 in the first quarter and seventy cents in the second quarter of 1950. Combined first half net income was $2.35 a share as against $1.26 a year ago, despite a rise in the tax bill to $5 million from $816,000. One reason for this excellent showing was a jump in sales for the six months to $43.1 million from $24.6 million; another a well maintained profit margin which in the first half averaged 9.5%, with firm prices probably a major contributing factor.

Admiral Corporation

The current troubles of the television industry are highlighted by the experience of Admiral Corporation. Reflecting a 41.6% drop in sales, earnings for the second quarter declined 60.9% to $1.69 million or 88 cents a share, from $4.32 million or $2.16 in the corresponding period last year. First quarter earnings were down to $1.25 a share. Actually, profits from operations during the second quarter were nominal, the bulk of earnings coming from a readjustment of tax reserves presumably based on an overestimation of taxes on first quarter earnings.

Sales in the June quarter totalled $33.2 million compared with $70 million in the March quarter and $57 million in the June quarter last year, with the sharp drop attributed to general consumer apathy, credit restrictions, excise taxes and confusion over color television. The company however managed to make sharp reductions in expenses which should minimize the prospect of future losses, if any. Whether the company can make money on the current reduced level of operations adjusted to the slow demand by distributors, remains to be seen. A partial offset exists in the substantial volume of Government electronic orders on the company's books.

Caterpillar Tractor

Illustrating the difference that high taxes makes to many industrial concerns, despite the fact that sales increases steadily produce new records, is the earnings statement for the first half of 1951 issued by the Caterpillar Tractor Company. In this report, the company showed net profits, after taxes and all charges, amounting to $11,008,813 which compared with $15,828,454 for the first six months of last year. This is stated in per share earnings as $2.78 for the 1951 period as against $4.07 for the corresponding part of the previous year. The decline took place despite an increase in sales from $155,481,683 to $223,446,259 for the half year. Thus, it is not difficult to see that the failure of the company to translate its greatly increased sales to a higher ratio of net profits has stemmed principally from the fact that the tax burden has steadily become more onerous.

It is noticeable that the more recent earnings have been progressively more unfavorable. Thus the first quarter netted $1.54 a share, and the second quarter only $1.24. If the new tax bill should tap third or at least fourth quarter 1951 earnings, it is likely that the company would show the effects in even lower net profits.

An additional factor in the earnings decline is the company's inability thus far to adjust its selling prices to the higher cost of materials. Further difficulties are caused by shortages in steel

which, in fact, has forced the company in some instances to purchase some of its requirements abroad, adding to the cost of operation. It would seem, then, that Caterpillar Tractor, which is only one of many such examples, illustrates the current paradox whereby a company may make enormous gains in sales and at the same time shows a decline in earnings.

Good Showing by Oil Industry

Although the oil companies, like other segments of our economy, have had to shoulder their share of the increased Federal taxes, nevertheless they almost uniformly were able to report a considerable gain in net profits for the first six months of this year. The essential factor in this situation, of course, is the exceptionally favorable depletion allowance of 26% which this industry enjoys.

Shell Oil Co. offers a good example of both increased sales and net profits in the oil industry. For the first six months of this year, there was a sharp increase in sales from $422 million in 1950 to $517 million in 1951. Net profits of $46,495,231 compared with $39,487,935, and on a per share basis this amounted to $3.45 against $2.93 for the corresponding period of last year.

National defense requirements and the continuing great volume of civilian demand indicate a very wholesome period of profits ahead for this company as is indeed true of the industry as a whole. Illustrating the rapid increase in production, based on a firm demand for its products, is the fact that the company's net crude oil production for the first six months of this year is up 23% over the same period of 1950; production is now averaging about 226,000 barrels a day. Refinery runs during the same period have increased about 18% to an average of 389,000 barrels daily. Based on this position, it seems likely that the company will surpass its 1950 record when it earned $6.69 per share for the full year.

Answers to Inquiries

(*Continued from page* 522)

The net current assets as of May 31, 1951, were $17,229,167 as compared with $12,084,898 a year ago. This large increase in net current assets was principally caused by retained earnings and a new $3,500,000 debenture issue at an attractive rate of 3%, maturing in 1971. The annual sinking fund payment, which ranges from $35,000 to $140,000 is based on the company's earnings. Inventories increased from $8,456,373 to $10,484,598.

The company does not expect the sales volume for the last six months of this year to show the same percent increase as was shown in the first six months but they see no reason why sales and profits should not continue at a satisfactory rate for the balance of this year.

For the fiscal year ended November 30, 1950 earnings on the class A stock were $4.83 and on the class B it was $2.42.

Dividends in 1950 totalled $2.27 per share on the Class A stock and 50 cents is the current quarterly rate. The class B paid $1.14 in 1950 and regular current quarterlyrate is 25 cents per share.

Best Investment Strategy Today

(*Continued from page* 488)

ceive of — much less get from Congress—if defense spending is pushed high enough. That will be for Congress to decide about a year from now. Depending on world events, there might be effective pressure for relaxation of the program earlier than the Administration now figures on, with deflationary consequences. And the ultimate consequences will be more serious the higher the arms spending is pushed; for semi-war conditions and vast expansion of industrial capacity preclude creation, as in wartime, of a civilian durable-goods vacuum to be filled later.

For the rest of this year, we look for no great change, from present levels, in production, employment, total personal income, and the broad average of commodity prices. Quarterly corporate earning power will be down substantially by the year-end, quarterly dividends moderately down, with no basis for expecting subsequent aggregate improvement apparent. Yet, on the supporting side, current dividend yields are still reasonably attractive.

We advise you to avoid short-term speculative ventures; to maintain adequate buying power in reserve; and to put the emphasis on careful selectivity in portfolio adjustments for longer-term objectives, to that end making use of suggestions always presented elsewhere in the pages of the Magazine. It will remain "a market of stocks". What that can mean is highlighted by the tabulation accompanying this discussion.—Monday, August 6.

As I See It!

(*Continued from page* 485)

watching it closely, hoping its chance will come sooner or later —further proof that despite soft peace talk, it is determined to continue the cold war with the utmost ruthlessness. The Kremlin's two voices should deceive no-one, just as its behind-the-scenes role in the Korean truce talks, in fact its very instigation of them, should not deceive us. The enemy's attitude during these talks makes it clear that he intends to come out as the big winner.

Peace, if established, could be exploited by the communist world in its next political move—the infiltration of South Korea. If the talks fail, this could be used in peace propaganda intended to divide the United Nations.

Exploiting Western Desire for Peace

Malik's peace overtures were made in full recognition of the possibility that the desire for peace might overwhelm all other considerations. Made as they were against the background of events in the Middle East, the Kremlin's game is not difficult to make out. Peace talks became attractive not only because of the communist setbacks in Korea, but also because they might cause dissention among the West and lull the free world into inactivity. Even if they fail, they will at least afford a breathing spell for renewed military build-up.

In short, despite peace talks and even a possible truce in Korea, let's not foolishly expect any retreat from Russia's long range anti-western policies. Peace talks are merely a device to "buy" time and fool the West, and to make the most of whatever opportunities may present themselves elsewhere.

ADJUST YOUR INVESTMENTS . . .

To Benefit From New Conditions

NOW is the time to start a realistic program to protect and promote your investment interests during the era of change ahead. It is realized today that world wide happenings are the same as local news in their effects on the earnings and fortunes of American corporations.

As an American investor your holdings are not frozen, you have the right to revise your securities—to withdraw from unfavorable situations, and to concentrate on those most advantageous for your personal investment objectives. Yet some investors do little or nothing about their holdings, and this has most often been a costly policy in the past.

STRATEGIC AND IMPORTANT POINT TO REVISE YOUR INVESTMENT HOLDINGS

The present—NOW—represents a particularly strategic time to recheck every individual security you own, as well as the investment policy YOU are following, in relation to cash reserves, income productivity, inflationary versus deflationary factors and other influential forces.

Such reappraisal must be searching and factual, and must avoid personal emotions and subjective considerations.

It is a difficult task for any individual investor. Rather it is a job for an organization of well trained, seasoned experts in the various phases of investment analysis.

MANAGING YOUR SECURITIES

Just as any business venture rises or falls by reason of management—so the healthy expansion—or the shrinkage—in your capital and income are governed by the competence and nature of the management of your investment account.

Capable management must construct a balanced portfolio, soundly diversified as to type of security, nature of business, geographical location and political influences.

It must plan to produce an income return to meet your individual needs and to provide a degree of safety to fit your personal circumstances.

Proper supervision of securities should anticipate dangers ahead and take steps to protect principal against loss. It should see new opportunities developing and set up a program to participate fully in income and profit benefits to be derived.

CONTINUOUS PERSONAL MANAGEMENT

Investment Management Service can take the initiative in advising you when any changes should be made in your personal investment holdings. You would be relieved of worry, effort and research and would never be left in doubt as to your market position. It is this alert, unbiased counsel which clients have renewed year in and year out.

NOW, with the market in a difficult phase, you should investigate this Service, by taking advantage of the special invitation below.

An Analysis Of Your Investment Portfolio

SPECIAL INVITATION

—without obligation, we offer to send you a confidential, preliminary review of your portfolio if it exceeds $20,000 in value—commenting frankly on its possibilities for capital growth, its income factor and its diversification. Your least favorable issues will be specified, with reasons for selling. Merely send us your list of holdings and objectives in as complete detail as you care to give. All information will be held strictly confidential.

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